Report of the
Comptroller and Auditor General of India
on
Revenue Receipts

for the year ended March 2011

Government of Tamil Nadu

Report No. 3

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PREFACE

This report for the year ended 31 March 2011 has been prepared for submission to the Governor under Article 151(2) of the Constitution.

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This report presents the results of audit of receipts comprising sales tax/value added tax, land revenue, stamp duty and registration fees, taxes on vehicles, electricity taxes, mines and minerals and interest receipts.

The cases mentioned in this report are among those which came to notice in the course of test audit of records during the year 2010-11 as well as those noticed in earlier years, but could not be included in the previous years' reports.

OVERVIEW

The Report contains 28 paragraphs including three performance audits relating to non/short levy of taxes, interest, penalty, etc., involving ₹ 742 crore. Some of the major findings are mentioned below:

I General

The total receipts of the State during 2010-11 were ₹ 70,187.62 crore, comprising tax revenue of ₹ 47,782.17 crore and non-tax revenue of ₹ 4,651.45 crore. ₹ 10,913.98 crore was received from the Government of India as State's share of divisible union taxes and ₹ 6,840.02 crore as grants-in-aid. The revenue raised by the State Government in 2010-11 was 75 *per cent* of the total revenue receipts as compared to 74 *per cent* in 2009-10. Sales tax (₹ 28,614.23 crore) formed a major portion (60 *per cent*) of the tax revenue of the State. Interest receipts, dividends and profits (₹ 1,689.78 crore) accounted for 36 *per cent* of the non-tax revenue.

(Paragraph 1.1)

Test check of the records relating to commercial taxes, land revenue, motor vehicles tax, stamp duty and registration fees, electricity duty and mines and minerals during the year 2010-11 revealed underassessments, short levy, loss of revenue and other observations amounting to ₹ 1,173.24 crore in 2,150 cases.

(Paragraph 1.5.1)

II Sales Tax / Value Added Tax

A performance audit on **"Utilisation of declaration forms in inter-state trade"** revealed the following:

- Delay in uploading details regarding utilisation of declaration forms in TINXSYS hampered the effective monitoring of inter state trade.

(Paragraph 2.13.8.2)

- There was incorrect exemption on consignment sales of cardamom involving tax of ₹ 33.14 lakh.

(Paragraph 2.13.10.1)

- There was absence of mechanism to monitor the implementation of extract verification reports of ISIC.

(Paragraph 2.13.10.1)

- There was evasion of tax due to misuse of declaration forms to an extent of ₹ 1.85 crore.

(Paragraph 2.13.11.1)

- Incorrect allowance of concessional rate of tax resulted in short levy of tax amounting to ₹ 2.10 crore.

(Paragraph 2.13.11.4)

- 8,322 'C' and 1,060 'F' declaration forms were issued to 792 dealers after the cancellation of the registration certificates/stoppage of business.

(Paragraph 2.13.13.1)

Other observations

There was incorrect availment of input tax credit amounting to ₹ 38.90 lakh.

(Paragraph 2.15.1)

Suppression of purchase turnover resulted in short levy of tax of ₹ 1.47 crore.

(Paragraph 2.16.3.1)

There was excess availment of deferral of sales tax amounting to ₹ 80.42 lakh.

(Paragraph 2.16.5)

Failure to cross verify the records of other Departments with that of the Commercial Taxes Department resulted in escapement of taxable turnover involving tax and penalty of ₹ 3.24 crore.

(Paragraph 2.17.1)

There was non-levy of penalty on the purchase suppression to the extent of ₹ 1.38 crore.

(Paragraph 2.17.2)

III Land Revenue

A performance audit on **"Land administration and collection of land revenue"** revealed the following:

- Non-renewal of leases/non-revision of lease rent resulted in non-realisation of lease rent of ₹ 39.69 crore.

(Paragraph 3.5.9)

- Land cost amounting to ₹ 35.33 crore in respect of Government lands alienated was not collected.

(Paragraph 3.5.10)

- Delay in alienation of Government lands after grant of 'enter upon permission' resulted in non-collection of land cost of ₹ 440.79 crore.

[Paragraph 3.5.11]

- 6,772.54 acres of Government lands, valuing ₹ 189.89 crore were encroached in 55 cases.

(Paragraph 3.5.12.1 & 3.5.12.2)

- 7,065 acres of land meant for water courses valuing ₹ 901.76 crore and 685.70 acres of land noted in 'Prohibitive Order Book' valuing ₹ 129.12 crore were encroached in 19,369 and 1,116 cases respectively.

(Paragraph 3.5.12.3 & 3.5.12.4)

- Non-resumption of Government land for violation of conditions of assignment/lease resulted in land valued at ₹ 14.30 crore remaining with the offenders.

(Paragraph 3.5.14.1)

IV Stamp duty and Registration fees

23 sale deeds conveying lands in favour of two co-operative housing societies were exempted from stamp duty though the executants were not members of the societies for a continuous period of two years resulting in non-levy of stamp duty of ₹ 1.49 crore.

(Paragraph 4.9.2)

There was excess allocation of transfer duty surcharge to local bodies amounting to ₹ 1.65 crore.

(Paragraph 4.9.5)

V Taxes on vehicles

A performance audit on **"Computerisation of Transport Department"** revealed the following:

- Failure to clearly frame up user requirements resulted in continued and repeated updation of software.

(Paragraph 5.8.8.1)

- Lack of periodical and continuous backup resulted in loss of information in two offices.

(Paragraph 5.8.8.2)

- Non-mapping of business rules resulted in non/short levy of tax.

(Paragraph 5.8.9)

- Lack of validation controls in the key fields affected the reliability of the information apart from wrong calculation of tax.

(Paragraph 5.8.10.2)

- Non utilisation of modules resulted in short collection of tax of ₹ 20.90 lakh in respect of 167 vehicles.

(Paragraph 5.8.11.1)

VI Other Tax Receipts

Electricity Taxes

Incorrect exemption of consumption of electricity resulted in non/short collection of electricity tax of ₹ 9.85 crore.

(Paragraph 6.8.2)

Interest payable for the belated payment of electricity tax was short adjusted to the tune of ₹ 260.03 crore.

(Paragraph 6.8.3)

VII Non-Tax Receipts

Mines and Minerals

Brick mineral annual fees amounting to ₹ 28.56 lakh was not collected.

(Paragraph 7.3.2)

Interest receipts

Demand towards interest and penal interest on loans/advances sanctioned to various Departments was not raised and collected to the extent of ₹ 360.02 crore.

(Paragraph 7.4)

CHAPTER I

GENERAL

CHAPTER I

GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Tamil Nadu during the year 2010-11, the State's share of net proceeds of divisible Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are given in the following table:

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	**Revenue raised by the State Government**					
	• Tax revenue	27,771.15	29,619.10	33,684.37	36,546.66	47,782.17
	• Non-tax revenue	3,422.57	3,304.37	5,712.33	5,027.05	4,651.45
	Total	**31,193.72**	**32,923.47**	**39,396.70**	**41,573.71**	**52,433.62**
2.	**Receipts from the Government of India**					
	• State's share of divisible Union taxes	6,393.86	8,065.27	8,510.80	8,756.20	10,913.98[1]
	• Grants-in-aid	3,325.65	6,531.77	7,135.01	5,514.22	6,840.02
	Total	**9,719.51**	**14,597.04**	**15,645.81**	**14,270.42**	**17,754.00**
3.	**Total receipts of the State Government (1 + 2)**	40,913.23	47,520.51	55,042.51	55,844.13	70,187.62
4.	**Percentage of 1 to 3**	**76**	**69**	**72**	**74**	**75**

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 52,433.62 crore) was 75 *per cent* of the total revenue receipts against 74 *per cent* in the preceding year. The balance 25 *per cent* of the receipts during 2010-11 was from the Government of India.

[1] For details please see Statement No. 11 – Detailed accounts of revenue by minor heads of the Finance Accounts of the Government of Tamil Nadu for the year 2010-11. Figures under the head '0021 – Taxes on income other than corporation tax – Share of net proceeds assigned to states' booked in the Finance Accounts under 'A – Tax revenue' have been excluded from the revenue raised by the state and included in 'State's share of divisible Union taxes' in this statement.

1.1.2 The following table presents the details of tax revenue raised during the period from 2006-07 to 2010-11:

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) in 2010-11 over 2009-10
1.	Sales tax/ VAT*/ CST**/ Entry tax	17,727.16	18,156.36	20,674.70	22,661.52	28,614.23	(+) 26
2.	State excise	3,986.42	4,764.06	5,755.52	6,740.68	8,115.94	(+) 20
3.	Stamp duty and registration fees						
	Stamps – Judicial	68.79	76.87	79.58	78.63	98.08	(+) 25
	Stamps – non-judicial	2,442.89	3,124.92	3,127.28	3,019.98	3,817.57	(+) 26
	Registra-tion fees	485.78	602.95	586.82	563.55	734.94	(+) 30
4.	Taxes on vehicles	1,260.88	1,483.21	1,709.57	2,024.64	2,660.05	(+) 31
5.	Land revenue	120.68	78.03	207.73	116.66	113.28	(-) 3
6.	Taxes on immovable property other than agricultural land (urban land tax)	14.45	15.75	11.79	12.01	10.21	(-) 15
7.	Others	1,664.10	1,316.95	1,531.38	1,328.99	3,617.87	172
Total		**27,771.15**	**29,619.10**	**33,684.37**	**36,546.66**	**47,782.17**	

* VAT - Value Added Tax (introduced in Tamil Nadu with effect from 1 January 2007)

** CST – Central Sales Tax

The following reasons for variation were reported by the concerned Departments:

State excise: The increase was due to increase in collection under foreign liquor, spirits and malt liquor.

Stamp duty and registration fees: The increase was due to increase in the sale of non-judicial stamps and increase in the registration of documents.

Taxes on vehicles: The increase was due to enhancement of life time tax.

The other Departments did not furnish (December 2011) the reasons for variation despite being requested (July 2011).

1.1.3 The following table presents the details of non-tax revenue raised during the period from 2006-07 to 2010-11:

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) in 2010-11 over 2009-10
1.	Interest receipts, dividends and profits	1,134.00	1,282.20	1,501.09	1,845.61	1,689.78	(-) 8
2.	Crop husbandry	74.45	82.41	73.53	92.54	116.30	(+) 26
3.	Forestry and wild life	82.31	46.42	82.65	86.90	139.22	(+) 60
4.	Non-ferrous mining and metall-urgical industries	566.64	581.76	527.36	610.89	675.87	(+) 11
5.	Education, sports, art and culture	215.83	301.40	302.74	383.64	518.83	(+) 35
6.	Other receipts	1,349.34	1,010.18	3,224.96	2,007.47	1,511.45	(-) 25
Total		**3,422.57**	**3,304.37**	**5,712.33**	**5,027.05**	**4,651.45**	

The following reasons for variation were reported by the concerned Departments:

Interest receipts, dividends and profits: The decrease was due to less interest realised on investment on cash balances and from public sector and other undertakings.

Crop husbandry: The increase was due to receipts from (i) pulses seed multiplication scheme, (ii) State seed farm and (iii) distribution of improved seeds of paddy and millets.

Forestry and wild life: The increase was due to increased sale of timber and other forest produce.

Non-ferrous mining and metallurgical industries: The increase was due to increase in receipts under mineral concession fees, rents and royalties.

Education, sports, art and culture: The increase of revenue was due to increased receipts from secondary education, tuition and other fees under technical education and elementary education respectively.

1.2 Response of the Departments/Government towards audit

1.2.1 Failure of the senior officials to enforce accountability and protect the interests of the State Government

The Principal Accountant General (Commercial & Receipt Audit), Tamil Nadu (PAG) arranges to conduct periodical inspections of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial replies to the PAG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

We reviewed the IRs issued upto 31 December 2010 and found that 23,075 paragraphs involving ₹ 3,424.21 crore relating to 7,101 IRs remained outstanding at the end of June 2011 as mentioned below along with the corresponding figures for the preceding two years:

	June 2009	June 2010	June 2011
Number of outstanding IRs	7,213	7,204	7,101
Number of outstanding audit observations	24,693	23,636	23,075
Amount involved (₹ in crore)	3,417.03	3,442.72	3,424.21

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2011 and the amounts involved are mentioned below:

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding		Money value involved (₹ in crore)
			Inspection reports	Audit observations	
1.	Commercial Taxes and Registration	Sales tax (TNGST/CST/VAT)	3,093	14,563	1,052.50
		Stamp duty and registration fees	1,377	3,184	332.89
		Entry tax	164	295	5.82
		Entertainment tax	54	58	2.18
		Luxury tax	111	130	2.28
		Betting tax	12	23	0.09
2.	Revenue	Land revenue	928	2,169	1,304.99
		Urban land tax	255	722	45.98
		Taxes on agricultural income	72	175	81.03

3.	Home (Transport)	Taxes on vehicles	470	800	108.86
4.	Home (Prohibition and Excise)	State excise	216	283	81.86
5.	Industries	Mines and minerals	273	552	342.64
6.	Energy	Electricity duty	76	121	63.09
Total			**7,101**	**23,075**	**3,424.21**

Even the first replies required to be received from the heads of offices within one month from the date of issue of IRs were not received for 1,077 paragraphs issued upto December 2010. This large pendency of IRs due to non-receipt of the replies was indicative of the fact that the heads of offices and heads of the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by us in the IRs.

We recommend that the Government may take suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as take action against officials/officers who did not send replies to the IRs/paragraphs as per the prescribed time schedules and also did not take action to recover the loss/outstanding demand in a time bound manner.

1.2.2 Departmental audit committee meetings

The Government set up audit committees (during various periods) to monitor and expedite the progress of the settlement of the paragraphs in the IRs. The details of the audit committee meetings held during the year 2010-11 and the paragraphs settled are mentioned below:

Head of revenue	Number of meetings held	Number of paragraphs settled	Money value involved (₹ in crore)
Sales tax/VAT	4	335	0.68
Taxes on vehicles	3	120	2.46
Stamp duty and registration fees	1	---	----
Mines and minerals	1	---	----
Electricity duty	1	---	----
Total	**10**	**455**	**3.14**

It may be seen from the table that though 10 meetings were conducted and 455 paragraphs were settled, the money value involved in these observations was not even one *per cent* of the total money value of ₹ 1,910.35 crore of the outstanding audit observations in respect of the heads of revenue mentioned in the table. This indicates that final rectificatory action has not been taken in respect of observations involving financial implications and thus they remain unresolved.

We recommend that the Government may suitably instruct the concerned Departments to take rectificatory action on all audit observations.

1.2.3 Non-production of records to audit for scrutiny

We draw up the programme of local audit of commercial tax offices sufficiently in advance and issue intimations, usually one month before the local audit, to the Department to enable them to keep the relevant records ready for audit scrutiny.

During 2010-11, 19,972 sales tax (Tamil Nadu General Sales Tax/Central Sales Tax/Value Added Tax) assessment records relating to 225 offices were not made available to us for audit. Of these, 700 assessments pertain to six special circles (four large taxpayers units in Chennai and two fast track assessment circles in Coimbatore). Out of the above 19,972 records, 11,140 records pertains to the period upto 2005-06 and the rest for the subsequent assessment years.

The delay in production of records for audit would render audit scrutiny ineffective, as rectification of underassessments, if any, might become barred by limitation, by the time these files are produced to audit.

We brought the matter regarding non-production of records in each office to the notice of the Department through the local audit reports of the respective offices.

The non-production of assessment records defeats the accountability of the executive and also hinders the discharge of duties of the Comptroller and Auditor General of India as enshrined in the Constitution.

1.2.4 Response of the Departments to draft audit paragraphs

The Government (Finance Department) issued directions (April 1952) to all Departments to send their responses to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks from the date of receipt of the draft paragraphs. The draft paragraphs are forwarded to the Secretaries of the concerned Departments through demi-official letters, drawing their attention to the audit findings with a request to send their response within six weeks. The fact of non-receipt of replies from the Departments is invariably indicated at the end of each such paragraph included in the Audit Report.

We forwarded 46 draft paragraphs (clubbed into 28 paragraphs including three performance audits) proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended March 2011 to the Secretaries of the respective Departments during March-November 2011 through demi-official letters. The Secretaries of the Departments did not send replies to 41 draft paragraphs (including three performance audits). Thus, there was non-compliance to the above mentioned instructions of the Government. Therefore, these paragraphs have been proposed for inclusion in the report without the response of the Secretaries of the Departments concerned.

1.2.5 Follow-up on Audit Reports

With a view to ensuring accountability of the executive in respect of the issues dealt with in the Audit Reports, the Public Accounts Committee (PAC) had directed that the Department concerned should furnish remedial/corrective Action Taken Notes (ATN) on the recommendations of PAC relating to the paragraphs contained in the Audit Reports within the prescribed time frame. We reviewed the outstanding ATNs as of 31 March 2011 on paragraphs included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu and found that the Departments had not submitted the ATNs for 986 recommendations pertaining to 290 audit paragraphs discussed by PAC. Out of the pending 986 recommendations, ATNs have not been received in respect of 441 recommendations even once, the earliest of which relates to the Audit Report-1986-87.

Further, PAC has also laid down that necessary explanatory notes for those issues mentioned in the Audit Reports should be furnished to the Committee within a maximum period of two months from the date of placing of the Report before the Legislature. Though the Audit Reports for the years from 2001-02 to 2009-10 were placed before the Legislative Assembly between May 2003 and September 2011, the Departments are yet to submit explanatory notes for 107 paragraphs (including 11 reviews) included in these reports.

1.2.6 Compliance with earlier Audit Reports-position of recovery of accepted cases

During the period from 2005-06 to 2009-10, the Departments/Government accepted audit observations involving ₹ 166.70 crore, of which ₹ 84.87 crore had been recovered till 31 October 2011 as given in the following table:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2005-06	228.71	5.18	2.26
2006-07	151.38	91.42	64.68
2007-08	408.47	46.49	9.30
2008-09	337.40	10.48	2.11
2009-10*	239.97	13.13	6.52
Total	**1,365.93**	**166.70**	**84.87**

* including a stand alone report on Registration Department

The Government may institute a mechanism to monitor the position of recoveries pointed out in the Audit Reports and take necessary steps for early collection.

1.3 Analysis of the mechanism for dealing with the issues raised by audit

In order to analyse the system of addressing the issues highlighted in the IRs/Audit Reports by the Departments/Government, the action taken on the paragraphs and reviews included in the Audit Reports of the last five years in respect of one Department is evaluated and included in each Audit Report.

Accordingly, the succeeding paragraphs 1.3.1 to 1.3.2 discuss the performance of the **Industries Department (Mines and Minerals)** to deal with the cases detected in the course of local audit conducted during the last five years and also the cases included in the Audit Reports for the years 2005-06 to 2009-10.

1.3.1 Position of inspection reports

The summarised position of IRs issued in respect of the Industries Department (Mines and Minerals) during the last five years, paragraphs included in these reports and their status as on 30 September 2011 are given in the following table:

(₹ in crore)

Year	Opening balance			Additions during the year			Clearance during the year			Closing balance		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2005-06	232	646	284.06	29	85	16.78	1	22	0.35	260	709	300.49
2006-07	260	709	300.49	24	84	1.35	5	57	1.68	279	736	300.16
2007-08	279	736	300.16	28	73	6.47	13	82	2.34	294	727	304.29
2008-09	294	727	304.29	19	34	2.20	33	167	2.33	280	594	304.16
2009-10	280	594	304.16	11	29	0.16	35	145	2.54	256	478	301.78

It is seen from the above table that there is no significant reduction in the outstanding IRs as well as paragraphs over the years.

We recommend that the Government may issue suitable instructions to the Department to take appropriate steps to clear the outstanding audit observations at the earliest.

1.3.2 Assurances given by the Department/Government on the issues highlighted in the Audit Reports – Recovery of accepted cases

The position of paragraphs in respect of the Industries Department (Mines and Minerals) included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered are given in the following table:

(₹ in lakh)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered
2005-06	2	55.68	1	11.17	11.17
2006-07	2	681.00	1	7.00	4.49
2007-08	1	104.00	1	104.00	77.84
2008-09	1 (Review)	10,985.00	---	336.00	---
2009-10	---	----	---	---	---
Total	**6**	**11,825.68**	**3**	**458.17**	**93.50**

The above table indicates that the overall percentage of recoveries of the accepted cases is only 20 *per cent* which is very low.

The Government may issue directions to the Department to recover the revenue involved in accepted cases on priority basis.

1.4 Audit planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which, *inter-alia*, include critical issues in Government revenues and tax administration i.e., budget speech, White Paper on state finances, reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, features of the tax administration, audit coverage and its impact during the past five years etc.

During the year 2010-11, the audit universe comprised 1,390 auditable units, of which 630 units were planned. Out of this, 591 units were audited during the year 2010-11 i.e., 42 *per cent* of the total auditable units. The details are shown in Annexure I.

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

We test checked the records of 568 units of commercial taxes, land revenue, motor vehicles tax, stamp duty and registration fees, electricity tax and mines and minerals in 2010-11 and found underassessments, short levy, loss of revenue and other observations amounting to ₹ 1,173.24 crore in 2,150 cases. During the year, the Departments accepted underassessments and other deficiencies in 1,043 cases involving ₹ 15.97 crore of which 371 cases involving ₹ 7.37 crore were pointed out in 2010-11 and the rest in earlier years. The Departments collected ₹ 7.59 crore during 2010-11.

1.5.2 This Report

This Report contains 28 paragraphs including three performance audits relating to non/short levy of taxes, duties, interest and penalties and other audit observations involving financial effect of ₹ 742 crore. The Departments/ Government accepted audit observations involving ₹ 15.62 crore, of which ₹ 1.19 crore had been recovered/adjusted by the Departments. We have not received replies in the remaining cases (December 2011). These are discussed in the succeeding chapters II to VII.

CHAPTER II

SALES TAX/VALUE ADDED TAX

Executive Summary

Increase in tax collection	In 2010-11 the collection from sales tax/value added tax increased by 26 *per cent* over the previous year.
Internal audit	Internal audit of Commercial Taxes Department was conducted on an average of 40 *per cent* of the offices. The Department attributed the reasons for lesser coverage of internal audit due to shortage of man power in the Internal Audit Wing
Results of audit conducted by us in 2010-11	In 2010-11, we test checked the records of 225 units and found underassessment of tax and other irregularities amounting to ₹ 192.84 crore in 1,116 cases. The Department accepted underassessments and other deficiencies amounting to ₹ 8.78 crore in 734 cases, out of which ₹ 3.71 crore involved in 339 cases were pointed out during 2010-11 and the rest in earlier years. Out of the above, an amount of ₹ 3.86 crore has been collected.
What we have highlighted in this Chapter	In this chapter we present a performance audit on **'Utilisation of declaration forms in inter-state trade'** containing important observations like delay in uploading data in TINXSYS, stock transfer of cardamom without verifying the genuineness of the transaction, evasion of tax due to misuse of declaration forms, functioning of inter-state investigation cell, involving a money value of ₹ 11.59 crore and a few illustrative cases involving ₹ 9.49 crore selected from observations like incorrect grant of exemption, application of incorrect rate of tax, incorrect availment of input tax credit, incorrect grant of refund, etc noticed during our test check of records in the assessment circles relating to assessment and collection of sales tax/value added tax, where we found that the provisions of the Acts/Rules were not observed. It is pertinent to mention that though similar omissions have been pointed out by us in earlier years, the Department had not taken corrective action though these mistakes continued as apparent from the records made available to us.
Our conclusion	The Department needs to take rectificatory action in the cases pointed out by us and also to ensure that such mistakes may not occur again by strengthening internal controls including internal audit. In the interest of revenue, the Department may expedite collection of tax in accepted cases on priority.

CHAPTER II

SALES TAX/VALUE ADDED TAX

2.1 Tax administration

The assessment, levy and collection of sales tax, central sales tax and value added tax are governed by the erstwhile Tamil Nadu General Sales Tax Act, 1959 and the Rules made thereunder, the Central Sales Tax Act 1956 and the Rules made thereunder, the Tamil Nadu Value Added Tax Act, 2006 and the Tamil Nadu Value Added Tax Rules, 2007 respectively. The administration of the Department is vested with the Principal Secretary and the Commissioner of Commercial Taxes. The State has been divided into 40 zones, comprising 323 assessment circles including four Large Taxpayers[2] units at Chennai and two Fast Track Assessment Circles (FTAC) at Coimbatore. The assessment, levy and collection of tax are done by the assessing authorities in charge of the assessment circles. The monitoring and control at the Government level is done by the Secretary, Commercial Taxes and Registration Department.

2.2 Trend of receipts

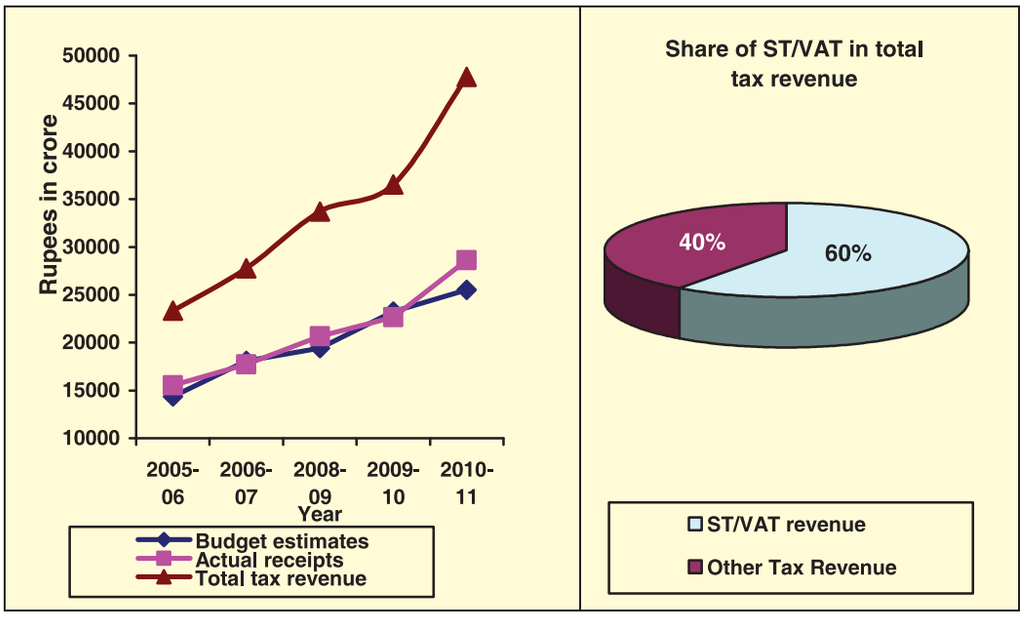
Actual receipts from sales tax/value added tax during the last five years from 2006-07 to 2010-11 along with the total tax receipts during the same period are exhibited in the following table:

(₹ in crore)

Year	Budget estimates	Actuals	Variation excess (+)/ short fall (-)	Percen-tage of variation	Total tax receipts of the State	Percentage of actual receipts *vis-à-vis* total tax receipts
2006-07	18,089.66	17,727.16	(-) 362.50	(-) 2.00	27,771.15	64
2007-08	20,030.84	18,156.36	(-) 1,874.48	(-) 9.36	29,619.10	61
2008-09	19,417.74	20,674.70	(+) 1,256.96	(+) 6.47	33,684.37	61
2009-10	23,242.53	22,661.52	(-) 581.01	(-) 2.50	36,546.66	62
2010-11	25,504.65	28,614.23	(+) 3,109.58	(+) 12.19	47,782.17	60

A line graph of budget estimates, actual receipts and total receipts and a pie chart depicting the position of Sales Tax/VAT receipts in the total tax receipts are given in the following page:

[2] Large taxpayers unit – Dealers whose taxable turnover for a year exceeds ₹ 200 crore.



In 2010-11 the collection from sales tax/value added tax increased by 26 *per cent* over the previous year.

2.3 Analysis of arrears of revenue

As per the information furnished by the Department, the arrears of revenue as on 31 March 2011 along with the figures for the preceding four years are given in the following table:

(₹ in crore)

Year	Opening balance	Addition	Total	Amount collected* during the year	Closing balance
2006-07	10,507.52	1,554.31	12,061.83	1,089.19	10,972.64
2007-08	10,972.64	279.10	11,251.74	3,030.15	8,221.59
2008-09	8,221.59	2,429.37	10,650.96	779.61	9,871.35
2009-10	9,871.35	1,937.68	11,809.03	818.97	10,990.06
2010-11	10,990.06	211.61	11,201.67	1,069.33	10,132.34
*includes demands eliminated, waived and written off					

The arrears as on 31 March 2011 includes ₹ 5,598.76 crore outstanding for more than five years. Demands amounting to ₹ 2,288.84 crore were covered under the Revenue Recovery Act. Demands amounting to ₹ 1,894.07 crore were stayed by the Government/High Court and other judicial/appellate fora and an amount of ₹ 457.91 crore was held up due to rectification/review applications. A sum of ₹ 52.16 crore could not be recovered on account of assessees becoming insolvent while a sum of ₹ 613.67 crore was likely to be written off/waived. An amount of ₹ 2,905.38 crore was covered under the deferral scheme. An amount of ₹ 596.55 crore was proposed to be eliminated. A sum of ₹ 651.16 crore was covered under civil suits and Board for Industrial and Financial Reconstruction and a sum of ₹ 672.60 crore was under various stages of recovery. Further as intimated by the Department an amount of ₹ 146.76 crore had since been collected between April and September 2011.

The above details indicate that the amount of uncollected revenue as on 31 March 2011 was nearly one third of the sales tax/VAT revenue realised by the Department during the year 2010-11 and substantial amounts were covered under the Revenue Recovery Act and on account of stays granted by the judicial/appellate fora.

We recommend that special efforts be made to get the stay orders vacated and speed up the cases involved in litigation. We further recommend that the Government may consider fixing targets for collection of old arrears in a time bound manner and closely monitor the performance of the Departmental officers *vis-à-vis* the set targets.

2.4 Assessee profile

The number of registered dealers in 2010-11 was 5,64,952 comprising 5,63,348 VAT dealers and 1,604 non-VAT dealers. Of the above, the large tax payers were 116 and the rest were classified as small tax payers. The number of dealers required to file returns during the year were 2,35,282 VAT dealers and 1,378 non-VAT dealers. The number of returns due from the dealers was 28,39,920 against which 21,41,454 returns were received. 6,87,515 and 10,951 returns were not received from VAT and non-VAT dealers respectively. These returns were due from 27,947 dealers.

The Department stated that notices were issued to non-filers of returns for cancellation of registration certificates. The details of the dealers whose registration certificates were cancelled for reason of non-filing of returns were, however, not made available to us.

2.5 Collection of sales tax/VAT per assessee

The details of amount of sales tax/value added tax realised during the year, the number of assessees and the collection of sales tax/value added tax per assessee for the period from 2006-07 to 2010-11 are given in the following table:

Year	No. of assessees	Revenue (₹ in crore)	Revenue per assessee (₹ in lakh)
2006-07	1,98,211	17,727.16	8.94
2007-08	2,24,074	18,156.36	8.10
2008-09	2,45,052	20,674.70	8.44
2009-10	2,70,159	22,661.52	8.39
2010-11	3,11,517	28,614.23	9.19

2.6 Arrears in assessment

The number of cases pending for assessment at the beginning of the year 2010-11, due for assessment during the year, disposed during the year and pending at the end of the year 2010-11 along with the figures for the preceding four years as furnished by the Commercial Taxes Department are given in the following table:

Year	Opening balance	Cases which became due for assess-ment	Total	Cases disposed during the year	Cases pending at the end of the year	Percentage of disposal (Col.5 to 4)
1	2	3	4	5	6	7
2006-07	68,916	1,82,457	2,51,373	1,51,825	99,548	60
2007-08	99,548	1,78,414	2,77,962	76,814	2,01,148	28
VAT	---	1,44,759	1,44,759	22,108	1,22,651	15
2008-09	2,01,148	---	2,01,148	55,381	1,45,767	28
VAT	1,22,651	1,85,270	3,07,921	95,047	2,12,874	31
2009-10	1,45,767	---	1,45,767	84,600	61,167	58
VAT	2,12,874	2,21,166	4,34,040	1,14,638	3,19,402	26
2010-11	61,167	---	61,167	36,122	25,045	59
VAT	3,19,402	2,37,073	5,56,475	1,63,957	3,92,518	29

The low rate of disposal after the introduction of VAT has increased the pendency of assessments. Such a poor pace of finalisation of assessments is likely to affect the collection of tax adversely.

The Department attributed the low percentage of disposal to the vacancy in the posts of assessing authorities.

We recommend that the Government may, by appropriate instructions, ensure completion of assessments expeditiously.

2.7 Cost of collection

The gross collection in respect of sales tax/VAT, expenditure incurred on collection and percentage of such expenditure to gross collection during the years 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for the previous years are given in the following table:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the previous years
Sales tax/ VAT	2008-09 2009-10 2010-11	20,674.70 22,661.52 28,614.23	187.27 205.10 219.30	0.91 0.91 0.77	0.83 0.88 0.96

The above table indicates that while the percentage of expenditure on collection was more than the all India average for the years 2007-08 and 2008-09 it was less than the all India average for the year 2009-10.

2.8 Analysis of collection

The break-up of total collection at the pre-assessment stage and after regular assessment of taxes on sales under the Tamil Nadu Value Added Tax Act for the years 2008-09, 2009-10 and 2010-11 as furnished by the Department are given in the following table:

(₹ in crore)

Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Penalties for delay in payment of taxes	Amount refunded	Net collection as per depart-ment	Net collection as per Finance Account	Percen-tage of col. 2 to 7
1	2	3	4	5	6	7	8
2008-09	22,140.73	369.17	55.33	716.02	21,813.29	20,674.70	107
2009-10 Sales Tax/ VAT	3,169.82 18,803.53	313.50 783.48	1,871.32	122.81	24,818.84	22,661.52	97
2010-11 Sales Tax/ VAT	4,442.83 26,399.77	89.03 98.07	86.88	625.58	30,491.00	28,614.23	108

The collection of revenue at pre-assessment stage to the net collection was 108 *per cent* during 2010-11 as against 97 *per cent* in 2009-10.

2.9 Impact of Audit Reports

2.9.1 Revenue impact

During the last five years, we had pointed out through our Audit Reports non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation, etc., with revenue implication of ₹ 351.31 crore in 59 paragraphs. Of these, the Department/Government had accepted audit observations involving ₹ 29.34 crore and had since recovered ₹ 9.16 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Accepted money value	Amount recovered
	Number	Money value		
2005-06	10	28.49	1.39	0.32
2006-07	10	64.54	12.16	0.69
2007-08	14	50.77	4.73	1.50
2008-09	12	72.52	3.12	0.96
2009-10	13	134.99	7.94	5.69
Total	**59**	**351.31**	**29.34**	**9.16**

The Government may institute a mechanism to monitor the position of recoveries pointed out in the Audit Reports and take necessary steps for early collection.

2.10 Amendments to the Acts/Rules/notification/order issued by the Government at the instance of audit

As per Rule 11(2) of the TNVAT Rules, dealers who effected zero rated sales shall claim refund within 180 days from the date of accrual of such claim. Audit pointed out (para 2.2.13.1 of the Audit Report 2008-09) that the term "accrual of claim" has not been defined. The Government accepted the audit observation and amended the rule by substituting the term "from the date of making zero rate sale" for the term "from the date of accrual of such claim".

2.11 Working of internal audit wing

The internal audit is organised in each CT district and consists of an Assistant Commissioner, one Commercial Tax Officer and four other supporting staff. The assessments finalised and the refunds made in the preceding quarter were to be taken up for audit in the succeeding quarter. The details of the number of offices due for internal audit and those completed as furnished by the Department are given in the following table:

Year	Number of offices due	Number of offices completed	Balance	Percentage of col.3 to 2
1	2	3	4	5
2006-07	479	182	297	38
2007-08	452	173	279	38
2008-09	452	155	297	34
2009-10	452	133	319	29
2010-11	443	83	360	19

The Department attributed the reasons for non-coverage of internal audit to vacancy in staff strength and stated that audit in respect of assessments finalised by assessing officers who were due for retirement and in respect of cases which would become time barred were only being conducted.

We recommend that Government may consider directing the Department to strengthen the internal audit so that audit may be conducted for all the units due for audit.

2.12 Results of audit

We test checked the records of 225 units and found underassessment of tax and other irregularities amounting to ₹ 192.84 crore in 1,116 cases, which broadly fall under the following categories.

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1	**Utilisation of declaration forms in inter-state trade (A performance audit)**	1	11.59
2	Incorrect exemption from levy of tax	190	116.44
3	Application of incorrect rate of tax	161	12.76
4	Incorrect computation of taxable turnover	85	11.85
5	Non/short levy of tax	100	7.62
6	Non-levy of penalty/interest	242	5.88
7	Incorrect allowance of input tax credit	286	7.62
8	Other observations	51	19.08
Total		**1,116**	**192.84**

During the course of the year 2010-11, the Department accepted underassessments and other deficiencies amounting to ₹ 8.78 crore in 734 cases, out of which ₹ 3.71 crore involved in 339 cases were pointed out during the year and the rest in earlier years. Out of the above, an amount of ₹ 3.86 crore has been collected.

After the issue of draft paragraphs the Department collected an amount of ₹ 37.04 lakh.

A performance audit on **'Utilisation of declaration forms in inter-state trade'** involving ₹ 11.59 crore and a few illustrative cases involving ₹ 9.49 crore are mentioned in the following paragraphs:

2.13 Performance audit on 'Utilisation of declaration forms in inter-state trade'

Highlights

- Delay in uploading details regarding utilisation of declaration forms in TINXSYS hampered the effective monitoring of inter-state trade.

(Paragraph 2.13.8.2)

- There was incorrect exemption on consignment sales of cardamom involving tax of ₹ 33.14 lakh.

(Paragraph 2.13.10.1)

- There was absence of mechanism to monitor the implementation of extract verification reports of ISIC.

(Paragraph 2.13.10.1)

- There was evasion of tax due to misuse of declaration forms to an extent of ₹ 1.85 crore.

(Paragraph 2.13.11.1)

- Incorrect allowance of concessional rate of tax resulted in short levy of tax amounting to ₹ 2.10 crore.

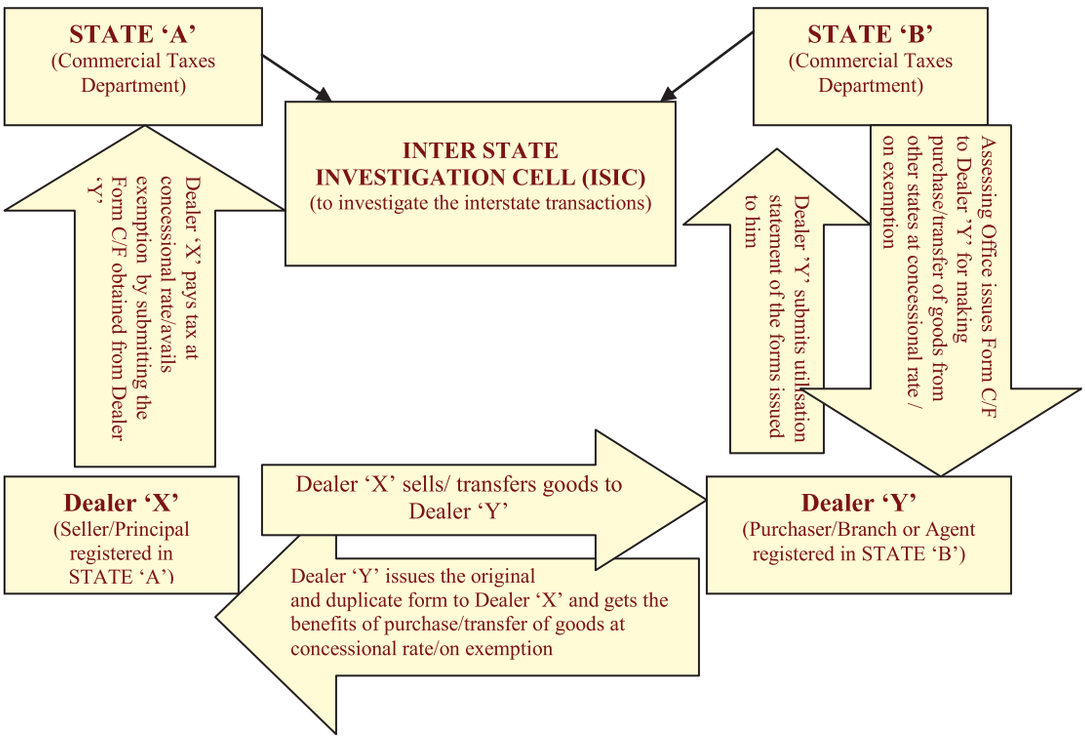
(Paragraph 2.13.11.4)

- 8,322 'C' and 1,060 'F' declaration forms were issued to 792 dealers after the cancellation of the registration certificates/stoppage of business.

(Paragraph 2.13.13.1)

2.13.1 Introduction

Under the Central Sales Tax Act, 1956, (CST Act) and the Rules made thereunder, every dealer, who in the course of inter-state trade or commerce, sells goods to a registered dealer shall pay tax at a concessional rate, if such sales are supported by declarations in form 'C' obtained from the purchaser. The dealers can purchase goods at concessional rate of tax for the purposes of resale, use in manufacture or processing of goods for sale, use in mining, use in generation/distribution of power and packing of goods for sale/resale, provided those goods are specified in their certificate of registration. Transfer of goods claimed otherwise than by way of sale made by a registered dealer to any other place of his business located outside the state is exempted from tax on production of the declarations in form 'F' duly filled in and signed by the principal officer of other place of his business or his agent as the case may be. Form 'F' declarations are issued for receiving/sending goods on stock transfer either from/to their depot/branch/principal/agent in other states for eventual sale in the respective states. These incentives are given to the dealers for furtherance of trade and commerce**.** The steps involved in these transactions are shown in the following illustration:



It is the responsibility of the Commercial Taxes Department to ensure proper accounting of declaration forms and to take adequate safeguard against misuse of declaration forms. The Government of India designed a website – "TINXSYS (Tax Information Exchange System)", as a repository of inter-state transactions. It helps the Department to effectively monitor the inter-state trade.

2.13.2 Organisational set up

The Secretary, Commercial Taxes and Registration Department is the head at the Government level. The Commissioner of Commercial Taxes is the head of the Commercial Taxes Department and is assisted by the Additional Commissioners, Joint Commissioners and Deputy Commissioners who exercise administrative control. The Deputy Commissioners of Large Taxpayers Units/Fast Track Assessment Circles, Assistant Commissioners, Commercial Tax Officers and Assistant Commercial Tax Officers are the assessing authorities. They are the custodians of the declaration forms and competent to issue the forms to the dealers. The Commercial Taxes Department is divided into 10 divisions, each headed by a Joint Commissioner, under whose control there are 323 assessment circles. Further, there is an Inter State Investigation Cell (ISIC) headed by a Joint Commissioner (CT), who is under the direct control of the Commissioner of Commercial Taxes, for carrying out the verification of inter-state transactions.

2.13.3 Audit objectives

The performance audit was conducted with a view to ascertain whether

- there exists a foolproof system for custody and issue of the declaration forms;
- exemption/concession of tax granted by the assessing authorities was supported by valid/original declaration forms;
- there is a system for ascertaining genuineness of the forms for preventing evasion of tax;
- there is a system of uploading the particulars in the TINXSYS website and the data available therein is utilised for verifying the correctness of the forms; and
- there exists an adequate internal control mechanism for preventing leakage of revenue.

2.13.4 Scope and methodology of audit

The performance audit was conducted in three phases, during the period from November 2010 to July 2011 to ascertain the accounting of the declaration forms and correctness of the concessions and exemptions allowed to the dealers under the CST Act. The scope of the performance audit was limited to only 'C' and 'F' forms.

In the first phase, details of declaration forms regarding inter-state sales and branch/stock transfers in respect of assessments finalised during the period from 2007-08 to 2009-10 were collected from the assessment circles in Tamil Nadu, segregated with reference to States/Union Territories to which they relate and forwarded to the concerned Accountants General offices for verifying the genuineness/correctness of the transactions.

In the second phase, details of declaration forms received were verified with reference to purchase/sales details available in the respective assessment circles.

In the third phase, based on the verification reports received from other Accountants General offices, observations were made by verifying the assessment records of the assessees in Tamil Nadu.

2.13.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Commercial Taxes Department and the Directorate of Stationery and Printing, Chennai, in providing the necessary information and records for the performance audit. An entry conference was held in November 2010 with the Additional Commissioner of Commercial Taxes (Audit) in which the audit objectives and methodology of audit were explained. The draft performance audit report was forwarded to the Government and the Department in September 2011. An exit conference was held in September 2011 with the Secretary to the Government, Commercial Taxes Department. The views expressed by the Department at the exit conference and at other times were considered and suitably incorporated in the performance audit.

2.13.6 Trend of revenue

The budget estimates as well as the actual collection of central sales tax for the last five years, as intimated by the Department, are given in the following table:

(₹ in crore)

Year	CST collection				Total tax collection	Percentage of CST collection on total tax collection
	Budget estimates	Actuals	Variation excess (+)/ short-fall (-)	Percentage of variation excess (+)/ shortfall (-)		
2006-07	1,808.66	2,261.91	(+) 453.25	(+) 25.06	27,771.15	8.14
2007-08	1,958.93	1,722.24	(-) 236.69	(-) 12.08	29,619.10	5.81
2008-09	1,277.00	1,645.65	(+) 368.65	(+) 28.87	33,684.37	4.89
2009-10	1,193.51	1,675.78	(+) 482.17	(+) 40.40	36,546.66	4.59
2010-11	1,865.70	2,250.67	(+) 383.97	(+) 20.58	47,782.17	4.71

According to Paragraph 27 of Chapter II of the Tamil Nadu Budget Manual (Volume-I), the aim of the preparation of the budget is to achieve as close an approximation to the actual as possible. We observed that the budget estimate for the year 2010-11 was prepared by adding a growth rate of 10 *per cent* to the revised budget estimate of 2009-10 and was fixed at ₹ 1,865.70 crore, whereas the actual collection was ₹ 2,250.67 crore showing an increase of 21 *per cent*. This indicates that the preparation of budget estimates was not realistic. The details relating to preparation of budget estimates for earlier periods and the reasons for variation between budget estimates and actuals, though called for (November 2011), were not furnished by the Department (December 2011).

Audit findings

System deficiencies

2.13.7 Printing, distribution and safe custody of declaration forms

The declaration forms are printed at the Government printing press by the Director of Stationery and Printing, Government of Tamil Nadu. Based on the annual requirement of declaration forms gathered from the individual assessment circles, the Joint Commissioner (Administration) places indents for supply of these forms. The supply of forms is made by the Director of Stationery and Printing to the Joint Commissioners of all divisions, as per the advice of the Joint Commissioner (Chennai Division) who has been authorised, by the Commissioner, to coordinate the distribution of forms. The Deputy Commissioners receive the forms from the divisions and distribute them to the assessment circles under his/her jurisdiction. The forms are kept under the safe custody in the assessment circles. During the period from April 2006 to March 2010, 50 lakh 'C' forms were printed and distributed to the assessment circles, according to their requirements. No 'F' forms were printed during the period of performance audit and 'F' forms were issued to the dealers out of the available stock.

2.13.7.1 Maintenance of stock register

As per Standing Order 86 of the Tamil Nadu Commercial Taxes Manual Volume II, each assessing authority shall maintain a Stock Register in Form 89 for accounting the receipt of declaration forms from the Territorial Deputy Commissioners and issue of the forms to the dealers. Issue Register in Form 90 shall also be maintained by the assessing authority to record dealer-wise details of issue of forms. The format of the Issue Register is such that whenever declaration forms are indented by the dealers, the assessing authority should check the utilisation of declaration forms received by the dealers earlier before issuing fresh forms to them.

We noticed during test check in 17 assessment circles[3] that the assessing authorities maintained only one register for accounting both stock and issue of declaration forms. The format of the register was also not uniform and different formats were adopted in different circles. As the registers were not maintained in the prescribed format, audit could not ensure whether the assessing officers exercised necessary checks before issuing declaration forms to the dealers.

We recommend that Government may consider issuing suitable instructions to the Department to maintain the stock and issue registers in the prescribed format to ensure proper control over the issue of declaration forms.

2.13.8 Tax Information Exchange System

The Empowered Committee of State Finance Ministers authored a website named TINXSYS (Tax Information Exchange System) as a repository of inter-state transactions. This is mainly aimed at helping the Commercial Taxes Department to effectively monitor the inter-state trade.

The dealers information, viz., name, CST number, TIN, address, date of registration under CST Act and status of registration under the CST Act are entered into the system. Further, details of issue/ utilisation of forms are also being entered. The details of utilisation of declaration forms are initially uploaded in 'xls' format by the assessment circles to the client server of the computer centre and from there, the data is converted into 'txt' format and uploaded in the TINXSYS server. Apart from verification of dealers profile, the Department officials use TINXSYS for verification of statutory forms issued by other State Commercial Taxes Departments to their assessees and used by the dealers in inter-state transactions.

[3] Adyar-I, Gandhi Market, Guindy, Hosur(North), Hosur(South), Koyambedu, Mannady (East), Mailamchandai-I, Mailamchandai-II, Nagercoil (Town), Pudukottai-I, Rock Fort, Srirangam, Thiruverumbur, Tiruvarur, Vepery and Woraiyur.

2.13.8.1 Deficiency in the format

The serial number of declaration forms is in alphanumeric format. While the alphabetic values denote the State code and series of the forms, the numerical value denotes the year of printing and serial number. We noticed that uniformity in assigning the serial number of declaration forms was not maintained by various State Governments and the state code, year, alphabetical series and numerical value are separated either by space or special characters like 'hyphen' or slash. In TINXSYS, only two input boxes were provided for entering series and serial number respectively. We observed that while uploading the details, in most of the cases the series of the forms were not entered in the input box as printed in the forms, that is, with 'hyphen' or 'slash' or space, as the case may be. As a result, in many instances the TINXSYS gives a message as 'no matching record available', even though the correct series and numerical value, as mentioned in the declaration forms are fed in the website for making verification of the usage of the particular forms.

We recommend that separate input boxes should be provided in TINXSYS to enter state code, year and alphabetical series to avoid mistakes in feeding the details.

2.13.8.2 Delay in uploading the data

The details regarding the number of 'C' and 'F' declaration forms issued to the dealers and the utilisation of those forms as available in the TINXSYS website indicated that as against the issue of 39,25,212 forms during the period from 2007-08 to 2010-11, details of utilisation of only 3,40,565 forms were uploaded in the website as on 31 March 2011.

The number of utilised declaration forms uploaded on TINXSYS was very low when compared to the number of declaration forms issued during the period of performance audit as shown in the following table:

Year	Number of forms issued	Number of forms for which utilisation details were uploaded
2007-08	10,21,561	13,580
2008-09	13,98,783	59,616
2009-10	9,81,684	1,50,946
2010-11	5,23,178	1,16,423

After we pointed this out, the Department replied that online software was rolled out during September 2009 and M/s. 3i Infotech Ltd. was requested to develop the interface between the CT server and TINXSYS server for data transfer. The module was developed by M/s. 3i Infotech Ltd. only after one year. Hence uploading the utilisation data from the server was delayed.

TINXSYS provides a platform for exchange of information on inter-state transactions among the States and it helps to ascertain the correctness of claim of concessional rate and exemption from levy of tax by the dealers. The delay/omission to upload the details of utilisation of forms would defeat the

very purpose of the creation of the website, viz., effective monitoring of inter-state trade.

2.13.9 Functioning of Inter-State Investigation Cell

2.13.9.1 The Inter-State Investigation Cell (ISIC) was formed with effect from 1 April 1975 with two Deputy Commercial Tax Officers under the control of the Deputy Commissioner (Intelligence). It has been functioning independently since 1987 with the Deputy Commissioner (now Joint Commissioner) as its head under the direct control of the Commissioner of Commercial Taxes. There are four groups in the ISIC and each group consists of one Commercial Tax Officer and one Assistant Commercial Tax Officer. The main functions of the ISIC include the following:

- Investigation and inspection of transactions which are of inter-state trade in nature;
- Verification of the existence of dealers including agents and branches situated outside the State and actual receipt, storage and sales of goods by them;
- Verification of the genuineness of the declaration forms obtained from other State dealers and
- Investigation outside the State of doubtful cases of inter-state sales, consignment sales or branch transfers referred by the assessing authorities.

Cases of inter-state transactions are referred to ISIC by the Commercial Tax Departments of other states and the assessment circles in Tamil Nadu for verification of the genuineness of the transactions in the form of Extracts Verification (EVs). The extracts received from other states are verified by the ISIC in the concerned assessment circles in the state and the results are communicated to respective states. Similarly, inter-state transactions referred by the assessment circles in the state are forwarded to the Investigative Wings of other states for verification. In some cases, the officials of ISIC are also visiting other states for verifying the genuineness of the transactions.

The ISIC had disposed of 5,919 EVs during the period from April 2006 to March 2010. These consisted of both inward and outward extracts[4] received for verification. Separate details of inward and outward extracts disposed of each year with money value were not made available to audit.

The disposal of cases by the ISIC for the years from 2006-07 to 2009-10 are given in the following table:

[4] **Inward Extract** : Extracts containing details of transactions made by the dealers in other States received from those States for verification in Tamil Nadu
Outward Extract : Extracts containing details of transactions, effected by the dealers in Tamil Nadu with the dealers in other States, sent to the counterparts of the respective States for verification

Year	Opening balance	No. of EVs received	Total	No. of EVs disposed off	Closing balance	Percentage of disposal
2006-07	1,942	1,576	3,518	1,594	1,924	45.30
2007-08	1,924	1,228	3,152	1,523	1,629	48.31
2008-09	1,629	1,776	3,405	1,506	1,899	44.22
2009-10	1,899	1,730	3,629	1,296	2,333	35.71

The pendency position of extracts verification as on 31 March 2010 is given in the following table:

	No of EVs	Percentage of pendency	Revenue (₹ in crore)
Less than six months	627	26.87	290.17
Six months and above but less than one year	405	17.36	214.66
One year and above but less than two years	641	27.47	96.13
Two years and above	661	28.33	113.95
Total	**2,333**		**714.91**

The Commissioner of Commercial Taxes, Chennai had neither fixed targets for extracts verification nor a time limit for the disposal of the cases. During the exit conference, the Department stated that fixing time limit for verification of transactions and disposal of cases on first in first out basis would be considered.

2.13.9.2 Communication of bogus transactions

As per the guidelines dated 24 December 1990 issued by the Commissioner of Commercial Taxes, if on verification, the ISIC found any party residing outside the state to be bogus, the ISIC should not confine itself to the transactions referred to it but the details of such bogus dealers should be communicated to all Joint Commissioners within the state in order to ensure realisation of revenue in similar transactions.

The details of such references called for from the Department were not made available to audit. In view of this, audit could not ensure whether the guidelines issued by the Commissioner of Commercial Taxes were adhered to in this regard.

Compliance deficiencies

2.13.10 Stock transfer of cardamom

Audit scrutiny on earlier occasions on the transactions of consignment sales of cardamom revealed non-existence of the agents in other States and consequent evasion of tax in many cases. We commented on this issue in the Audit Reports for the years 2004-05 and 2008-09. In respect of the cases included in the Audit Report for the year 2004-05, the Government replied that action was initiated to revise the assessments.

2.13.10.1 We noticed in Bodinayakanur assessment circle that the assessing authority, while finalising the assessments of 13 dealers for the years 2004-05 and 2005-06 between April 2007 and December 2007 allowed exemption on a turnover of ₹ 88.84 crore being stock transfer of cardamom to other states on the strength of 114 form 'F' declarations filed by the dealers. The assessing authority forwarded the details of 'F' form declarations in June 2008 to ISIC through Joint Commissioner (Enforcement), Madurai for verification. However, we observed that no such reference was received by the JC (Enforcement) Madurai and as such the genuineness of those transactions were not verified by the ISIC.

Independent verification made by us with Maharashtra and West Bengal sales tax authorities revealed that five declaration forms produced by four assessees for claiming exemption on consignment sales of ₹ 3.31 crore were bogus as the forms were not issued by the concerned authorities in Nagpur and Kolkata, where the goods were stated to have been sent on stock transfer basis. The tax involved in the above transactions worked out to ₹ 33.14 lakh. Omission on the part of the assessing authorities in cross verifying the genuineness of the transactions while finalising the assessments resulted in evasion of tax.

The ISIC undertakes investigation on the genuineness of inter-state transaction of the dealers based on the EVs received by them and forwards the result of such investigations to the concerned assessment circles for implementation. During the period from 2005-06 to 2009-10, they detected 58 deficiencies[5] pertaining to 29 assessees and stated to have forwarded the details to the respective assessment circles, which included 12 deficiencies relating to Bodinayakanur assessment circle.

We, however, noticed in Bodinayakanur assessment circle, that the reports relating to three bogus claims of consignment sales of cardamom amounting to ₹ 46.45 lakh by two dealers sent by the ISIC (January 2008 and July 2009) were stated to have not been received by the assessing authority and as such were not acted upon by them (April 2011). This indicates that the Department did not have any system to monitor the implementation of the verification reports sent by the ISIC.

We recommend that the Government may consider issuing suitable instructions insisting upon the dealers to submit form 'F' declarations along with monthly returns for claiming exemption. The genuineness of the doubtful transactions should also be verified before finalising the assessments.

We also recommend that a suitable monitoring mechanism should be evolved to ensure implementation of the verification reports forwarded by the ISIC to avoid loss of revenue due to non-implementation of the reports.

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[5] Deficiencies include bogus 'C'/'F' forms, declaration forms not issued to the concerned dealer, purchases not accounted for, etc.

2.13.10.2 We noticed in Bodinayakanur assessment circle that based on the D3 proposals[6], the assessments in respect of eight dealers in cardamom were finalised for the years 2002-03 to 2005-06 and a demand of ₹ 6.35 crore was raised between August 2007 and August 2008. However, assessment orders could not be served as the dealers had closed their business and were not available at the addresses mentioned in the registration certificates. Though, under the proviso to the Rule 12(5) of the Central Sales Tax (Registration and Turnover) Rules 1957, it was mandatory that each form 'F' shall cover only transactions effected during the period of one calendar month, the assessing officer did not insist on production of form 'F' along with monthly returns and cross verify the genuineness of the transactions. The failure of the assessing officer to cross verify the transactions through ISIC before finalising the assessments resulted in non-realisation of revenue of ₹ 6.35 crore.

2.13.11 Results of cross verification

We carried out cross verifications of declaration forms issued by the dealers in Tamil Nadu for the inter-state purchases as well as for the sales effected by them against declaration forms to other state dealers, with a view to ascertain the accountability and its genuineness. The results of such cross verifications are discussed in the following paragraphs:

2.13.11.1 Evasion of tax due to misuse of declaration forms

We noticed during verification of the details of five 'C' forms and 45 'F' forms used for the purchase of goods at concessional rate/receipt of goods on stock transfer from other states, by 18 dealers registered in 15 assessment circles[7] that the declaration forms were not issued to the concerned dealers. Thus, purchase of goods has been made by the dealers using invalid declaration forms. This resulted in non-accounting of these purchases and consequent suppression of sales amounting to ₹ 18.24 crore by these dealers. The tax and penalty involved worked out to ₹ 74.04 lakh and ₹ 111.07 lakh respectively.

2.13.11.2 Non/short accounting of goods purchased by issue of declaration forms

- We noticed during cross verification of the details of five declaration forms received from Odisha and Rajasthan with the VAT returns of the assessees available in Nagercoil (Rural) and Thucklay assessment circles that two dealers had not accounted for the purchase of goods, made during 2007-08 and 2008-09, valued at ₹ 2.80 crore. This resulted in suppression of corresponding sales turnover of ₹ 3.08 crore involving tax and penalty of ₹ 57.29 lakh.

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[6] The findings of the inspections conducted by the enforcement wing are forwarded to the concerned assessing authority for implementation, in the form of D3 proposals.

[7] Arisipalayam, Bhavani, Chengalpet, Dindigul–I, Lei Bazar, Madurai (Rural South), Mylapore, Nagercoil(Rural), Palani–I, Porur, Salem(Rural), Tirupattur, Tirupur (Rural), Tiruvannamalai and Vellore (South).

- We noticed during cross verification of the details of five declaration forms received from Rajasthan with the assessment records available in Nagercoil (Tower Junction) assessment circle that a dealer, who purchased marble from Rajasthan by issuing 'C' form declarations had understated the purchase value of the goods to an extent of ₹ 31.74 lakh. This resulted in consequent suppression of sales turnover of ₹ 34.91 lakh involving tax and penalty of ₹ 10.99 lakh.

2.13.11.3 Acceptance of defective 'C' declaration forms

Under the CST Act, tax is leviable at concessional rate on inter-state sale of goods, if such sales are covered by valid declarations in Form 'C'.

- We noticed during scrutiny of assessment records in Periamedu and Egmore I assessment circles that four declaration forms filed by two dealers were found to be defective as the registration number of the purchasing dealer was not mentioned in the declaration forms. Thus, the exemption allowed/short levy of tax on inter-state sale of goods valued at ₹ 1.88 crore by accepting the defective 'C' form declarations resulted in non/short levy of tax amounting to ₹ 19.65 lakh. Accepting the audit observation, the Department revised the assessment (December 2011) in respect of the assessee in Egmore I assessment circle. We are awaiting the reply in respect of the other case (December 2011).

As per second proviso to Rule 12(1) of the Central Sales Tax (Registration and Turnover) Rules, 1957, a single declaration in form 'C' may cover all transactions of sales which take place in a quarter of a financial year.

As per first proviso to Rule 12(5) of the Central Sales Tax (Registration and Turnover) Rules, 1957, a single declaration in form 'F' may cover transfer of goods by a dealer to any other place of his business or to his agent or principal, effected during a period of one calendar month.

- We noticed in 14 assessment circles[8] that in respect of 35 assessees, 73 'C' form declarations covering transactions pertaining to more than one quarter were accepted and tax was levied at the concessional rate on the entire turnover of ₹ 18.70 crore, instead of restricting the concessional levy to the transactions relating to one quarter only. Similarly, in six

[8] Ambattur, Annasalai-I, Annasalai-III, Chepauk, Egmore-I, Egmore-II, Korattur, Mettupalayam Road, Nagercoil (Rural), Periamedu, Royapuram, Tondiarpet, Vepery and Villivakkam.

assessment circles[9], in respect of 17 assessees, 72 'F' declaration forms covering transactions of more than one month for ₹ 87.40 crore were accepted and exemption was allowed, instead of restricting the exemption to transactions relating to a single month.

2.13.11.4 Incorrect allowance of concessional rate of tax

Under the CST Act, tax is leviable at concessional rate on inter-state sale of goods, if such sales are covered by valid declarations in form 'C'.

- We noticed during scrutiny of assessment records in FTAC-II, Coimbatore and Egmore II assessment circles that in respect of two dealers, the sales turnover of ₹ 13.24 crore was not covered by declarations in form 'C'. However, the above sales turnover was allowed concessional rate of tax which resulted in short levy of tax of ₹ 80.42 lakh.

- We noticed during cross verification of declaration forms issued by dealers in Andhra Pradesh and Maharashtra in respect of sales effected by 16 dealers registered in 12 assessment circles[10] in Tamil Nadu that 29 declaration forms were found to be defective, as the declaration forms were found not to have been issued by the concerned sales tax authorities. This resulted in incorrect grant of concessional rate of tax on the sales turnover of ₹ 17.74 crore involving tax of ₹ 1.30 crore.

2.13.11.5 Incorrect grant of exemption on consignment sales

We observed during scrutiny of the assessment file relating to a dealer registered in Godown assessment circle, that the exemption granted on the consignment sales of dhall (pulses) was covered by two defective 'F' forms as the assessing authority in Kadapa assessment circle, Andhra Pradesh, under whose jurisdiction the buyer was an assessee, had stated that the declaration forms were not issued by them. Thus, the incorrect grant of exemption on a turnover of ₹ 57.85 lakh resulted in non-levy of tax of ₹ 4.63 lakh.

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[9] Bodinayakanur, Nagercoil (Rural), Peddunaickenpet (North), Tiruppur (South), Vepery and Villivakkam,

[10] Chepauk, Egmore I, FTAC–II (Coimbatore), Ganapathy, Guindy, Mettupalayam Road, Nagercoil (Rural), P.N. Palayam, Sivakasi-IV, Tiruppur (South), Triplicane–I and Villivakkam

2.13.11.6 Non-levy of penalty for misuse of 'C' form

Under the CST Act, a registered dealer buying goods from other states is entitled to a concessional rate of tax of four *per cent*, provided he furnishes to the seller, a declaration in form 'C'. If the goods indicated in the declarations are not covered by the certificate of registration, or if the dealer fails to make use of the goods for the purpose for which it was purchased at concessional rate, the dealer renders himself liable to penalty not exceeding one and half times of the tax due.

In Thiruthuraipoondi assessment circle, during 2007-08 a dealer had purchased from a dealer in Goa, optical fibre cable amounting to ₹ 51.05 lakh by using 'C' declaration form though the commodity was not included in the registration certificate. Hence the assessee was not eligible to purchase the goods against issue of 'C' form declaration. For misuse of declaration form, penalty of ₹ 3.06 lakh, was leviable.

2.13.12 Absence of mechanism to monitor inter-state movements of petroleum products

According to Section 3(a) of the CST Act, a sale or purchase of goods shall be deemed to have taken place in the course of inter-state trade or commerce, if the sale or purchase occasions the movement of goods from one state to another.

We undertook a study on the adequacy and effectiveness of the system for monitoring the inter-state transaction of major oil companies, in order to safeguard the revenue interest of the state.

Accordingly, we cross verified the inter-state sale of petroleum products effected by two dealers during the years from 2007-08 to 2009-10 to the 68 purchasing dealers in Puducherry with the records maintained in the Commercial Taxes check posts situated at the border of the Union Territory of Puducherry to ascertain the actual movement of petroleum products out of this State.

We noticed from the details captured in the check post module and the movement registers maintained at the check posts that except a few transactions, all other transactions relating to inter-state sale of petroleum products declared to have been transported to the Union Territory of Puducherry have not been recorded in the check posts registers in evidence of the movement of the vehicles, suggesting that the entire goods had not moved out of the state.

The information regarding the consignment of petroleum products to the Union Territory of Puducherry and the number of movements recorded in the check posts in respect of two oil companies for the years from 2007-08 to 2009-10 are given in the following table:

Name of the Oil company	Movement of goods to the UT of Puducherry		Entries as per check post records	
	Number of consign-ments	Value (₹ in crore)	Number of consign-ments.	Value (₹ in crore)
M/s Indian Oil Corporation Limited	30,862	1,170.64	383	14.63
M/s Bharat Petroleum Corporation Limited	17,491	754.26	753	102.09

We drew the attention of the Department/Government in September 2010 and June 2011 to the possibility of the goods having been sold within Tamil Nadu and the local sales camouflaged as inter-state sales, taking advantage of the huge difference in tax rates[11] of petroleum products prevailing in this State and in the UT of Puducherry.

The Enforcement Wing of the Commercial Taxes Department, in pursuance of our audit observation and based on the instructions of the Principal Secretary and the Commissioner of Commercial Taxes, undertook surprise checks on the movement of oil tankers bound for Puducherry during October/November 2010 and found that out of 26 oil tankers that were transporting diesel/motor spirits, 24 vehicles had not crossed the border check posts of Tamil Nadu. The Enforcement Wing also collected, by way of tax and compounding fee, a sum of ₹ 14.28 lakh during surprise checks undertaken by them, apart from noticing instances of book stock exceeding tank capacity and cases of abnormal daily sales figures in the daily sales records maintained at the outlets located in the UT of Puducherry.

Further, the Government accepting (May 2011) our audit observation regarding the diversionary trade practices indulged in by the petroleum dealers, introduced 'Transit Pass' system by bringing the commodities petrol, high speed diesel oil and light diesel oil under the Sixth Schedule to the TNVAT Act 2006 to curb the menace of mid-dropping.

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	Tamil Nadu		Puducherry	
	Period	Rate	Period	Rate
Diesel Oil	1.4.2007 to 5.6.2008	23.43 %	1.4.2007 to 6.11.2009	12.5 %
	From 6.6.2008	21.43 %	From 7.11.2009	14 %
Petrol	From 1.4.2007	30 %	1.4.2007 to 6.11.2009	12.5 %
			From 7.11.2009	15 %

2.13.13 Other points of interest

2.13.13.1 Irregular issue of declaration forms

As per Rule 10(1) of the CST (Tamil Nadu) Rules, 1957 declaration forms can be issued only to the registered dealers. Once the registration certificate (RC) is cancelled, the dealer becomes an unregistered dealer.

Rule 10(6) of the rules *ibid* provides that unused declaration forms remaining in stock with a registered dealer on the cancellation of his registration certificate or on the stoppage of his business shall be surrendered to the registering authority within seven days from the date of receipt of the order of cancellation or the date of stoppage of business.

A scrutiny of details regarding issue of declaration forms and data relating to cancelled RCs/stopped business cases available with the Department revealed that 8,322 'C' form and 1,060 'F' form declarations were issued to 792 dealers, in 226 assessment circles, subsequent to the date of cancellation of their RCs, against the rule provisions.

After this was pointed out, the Department stated that the issue of declaration forms was in respect of transactions completed by the dealers prior to the cancellation of RCs. The reply is not tenable since the declaration forms issued to the dealers after the cancellation of the RCs is not in conformity with the rules.

2.13.14 Conclusion

The performance audit revealed that though standard formats have been prescribed to maintain stock and issue register, these were not maintained properly. There was delay in uploading the details of utilisation of declaration forms issued to the dealers on the TINXSYS website defeating the purpose of the creation of the website. Exemption was allowed on consignment sales of cardamom without verifying the genuineness of the transactions though it has been identified as evasion prone commodity. No time frame has been fixed for verification of transactions referred to ISIC. There is no follow up on implementation of EV reports sent by ISIC. Concessions/exemptions were allowed against invalid and defective forms. While allowing such benefits, the genuineness of the transactions was not checked. Declaration forms were issued to the dealers subsequent to the cancellation of their registration certificates against the provisions of the rules.

2.13.15 Recommendations

The Government may consider

- evolving a system to arrest the leakage of revenue in respect of exemptions claimed on inter-state sales of goods like cardamom in the guise of consignment sales/stock transfer;

- evolving a suitable monitoring mechanism to ensure implementation of the verification reports forwarded by the ISIC;
- fixing a time limit for verifying the genuineness of transactions referred to ISIC; and
- introducing a system of issuing online declaration forms which would facilitate updation of details without delay in the TINXSYS website.

2.14 Other audit observations

We scrutinised the records in the offices of the Commercial Taxes Department and noticed several cases of non-observance of the provisions of the Acts/Rules, resulting in application of incorrect rates of tax, incorrect grant of exemption, non-reversal of input tax credit wrongly allowed, non/short levy of interest/penalty and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and based on test checks carried out by us. Although such omissions are pointed out every year, the irregularities persist and remain undetected till the next audit is conducted. There is a need for the Government to consider directing the Department to improve the internal control systems including strengthening of internal audit so that such omissions can be avoided, detected and corrected.

2.15 Non-compliance of the provisions of the VAT Act/Rules

The Tamil Nadu Value Added Tax (TNVAT) Act and the Rules made thereunder provide for:

(i) reversal of tax where input tax credit was allowed wrongly and levy of penalty;

(ii) furnishing of monthly returns within the prescribed period and payment of the admitted tax along with the returns and in case of default, the payment of penalty/interest at the rates prescribed in the Act; and

(iii) levy of interest on delayed payment of tax deducted at source into the Government account.

We noticed non-compliance of the provisions of the Act/Rules in some cases involving non/short realisation of ₹ 1.57 crore. These cases are mentioned in paragraphs 2.15.1 to 2.15.4.

2.15.1 Incorrect availment of Input Tax Credit

Under Section 19(1) of the Tamil Nadu Value Added Tax Act, 2006 (TNVAT Act), a registered dealer shall be entitled to input tax credit (ITC) of the amount of tax paid or payable under the Act to the seller on his purchase of taxable goods specified in the first schedule.

As per Section 27(2) of the Act where the ITC has been availed wrongly, the assessing authority shall reverse the ITC availed and determine the tax due. Section 27(4)(i) of the Act provides that in addition to the tax so determined, the assessing officer shall levy penalty at 50 *per cent* of the tax due in the case of the first such detection and 100 *per cent* in the case of second or subsequent detections.

2.15.1.1 Non-reversal of ITC

Under Section 19(5)(a) of the TNVAT Act, 2006, no input tax credit shall be allowed in respect of sale of goods exempted under Section 15 of the TNVAT Act, 2006.

- We noticed (March/May 2010) during test check of the assessment records in Kilpauk assessment circle, Chennai, and Kongunagar

assessment circle, Tiruppur, that two assessees availed ITC on purchases though they effected sales of exempted goods also during the year 2006-07. The proportionate ITC attributable to the sale of exempted goods was not reversed. This resulted in non-reversal of ITC and non-levy of penalty amounting to ₹ 13.32 lakh and ₹ 6.66 lakh respectively.

After we pointed this (May/October 2010) out, the Department reversed the ITC (May 2010) in respect of the dealer in Kongunagar assessment circle. We are awaiting the reply from the Department in respect of the dealer in Kilpauk assessment circle (December 2011).

Under Section 19(20) of the TNVAT Act, 2006, where any registered dealer sells goods at a price lesser than the price of the goods purchased by him, the amount of the ITC over and above the output tax of those goods shall be reversed.

- In FTAC-IV (now LTU-IV) assessment circle, Chennai, we noticed (March 2011) that a dealer sold superior kerosene oil, during the year 2006-07, through public distribution system for a value lesser than the purchase price paid by him. The ITC over and above the output tax, amounting to ₹ 10.53 lakh, was required to be reversed and a penalty of ₹ 5.27 lakh was also to be levied, which was not done.

We pointed this (March 2011) out to the Department and are awaiting their reply (December 2011).

2.15.1.2 Allowance of ITC on purchases made from unregistered dealers

Under Section 19(2) of the TNVAT Act, 2006, ITC shall be allowed for the purchase of goods made within the State from a registered dealer.

We noticed (October 2010) during test check of the assessment records in Tiruvottiyur assessment circle, Chennai, that a dealer had availed ITC of ₹ 4.96 lakh on the purchases made by him during the month of January 2007 from a dealer whose registration certificate was cancelled with effect from 1 January 2007 i.e. from the date of introduction of VAT in the State. The ITC of ₹ 4.96 lakh availed wrongly was required to be reversed and a penalty of ₹ 2.48 lakh was also to be levied.

We pointed this (October 2010) out to the Department and are awaiting their reply (December 2011).

2.15.1.3 Availment of ITC beyond the prescribed time limit

Under Section 19(11) of the TNVAT Act, 2006, a dealer shall claim ITC in respect of any transaction of taxable purchase before the end of the financial year or before 90 days from the date of purchase, whichever is later.

In Madurai (Rural-South) assessment circle, a dealer availed ITC of ₹ 3.76 lakh on the purchases made during the year 2007-08 in September 2009. Thus, the ITC was availed beyond the period prescribed in the Act. The ITC of ₹ 3.76 lakh was required to

be reversed. Besides penalty of ₹ 1.88 lakh was also leviable.

We pointed this (February 2011) out to the Department and are awaiting their reply (December 2011).

2.15.1.4 Allowance of ITC on zero rated sales

Under Rule 10(3)(b)(vii) of the Tamil Nadu Value Added Tax Rules, 2007, a dealer who effects zero rated sales shall not be entitled for ITC relating to the stock held on the date of commencement of the TNVAT Act.

In Adyar-II assessment circle, Chennai, a dealer effected sales including zero rated sales out of the closing stock held on 31 December 2006 and availed ITC of ₹ 3.88 lakh. However, proportionate ITC of ₹ 3.19 lakh on closing stock attributable to the zero rated sales was not reversed. In addition, penalty of ₹ 1.59 lakh was also leviable.

After we pointed this (July 2010) out, the Department revised the assessment (March 2011) and reversed the ITC already availed. We are awaiting the details regarding the collection and levy of penalty (December 2011).

2.15.1.5 Allowance of ITC on purchase returns

Under Section 14 of the TNVAT Act, 2006, where a purchasing dealer has returned the goods to the seller for any reason, the ITC already claimed on the purchase shall be liable to reversal of tax credit.

In Adyar-I assessment circle, Chennai, a dealer returned goods valuing ₹ 12.56 lakh to the seller in May 2007. Instead of reversing the corresponding ITC of ₹ 1.57 lakh pertaining to the purchase returns, he reckoned the same as ITC and availed the same, resulting in excess availment of ITC of ₹ 3.14 lakh. The excess availment of ITC of ₹ 3.14 lakh has to be reversed besides levy of penalty of ₹ 1.57 lakh.

We pointed out the cases mentioned in sub paragraphs 2.15.1.1 to 2.15.1.5 to the Department (March 2011) and to the Government (May 2011). The Government accepted (June 2011) our audit observation mentioned in para 2.15.1.4 in respect of Adyar II assessment circle stating that the assessment was revised. We are awaiting their reply in respect of the other cases (December 2011).

2.15.2 Incorrect grant of refund

According to Section 18(1) of the TNVAT Act, 2006, (i) a sale as specified under Section 5(1) or 5(3) of the Central Sales Tax Act. 1956, (ii) a sale to any registered dealer located under Special Economic Zone in the State and (iii) sales to certain international organisations are regarded as zero rated sales.

As per Section 18(2) of the Act, a dealer, who makes zero rated sales, is entitled to refund of input tax paid or payable by him on purchase of those goods, which are exported as such or consumed or used in the manufacture of other goods that are exported. Sale of goods to hundred *per cent* export oriented units is not zero rated sale and is not covered under Section 18(1) of the Act. Accordingly, refund of input tax cannot be allowed in respect of goods involved in sales to hundred *per cent* export oriented units.

We observed during audit (August 2010) in Pudukottai I assessment circle that a dealer who sold rough granite blocks to a hundred *per cent* export oriented unit during the period 2006-07 and 2007-08 was granted refund of ₹ 89.19 lakh in respect of input tax paid on his purchases. Since the sale was not a zero rated sale, the refund allowed was not in order.

After we pointed this out (August 2010), the Department contended (August 2010) that the sale effected to hundred *per cent* export oriented unit was covered under the sub-sections (1) (ii) and (2) of Section 18 of the Act. The reply is not acceptable as the sale effected to hundred *per cent* export oriented unit is not covered by Section 18(1) and the Commissioner of Commercial Taxes had also clarified (August 2007) that sale to hundred *per cent* export oriented units is not zero rated sale. We await further reply from the Department (December 2011).

We reported the matter (January 2011) to the Government and are awaiting their reply (December 2011).

2.15.3 Non-filing of returns by the contractors

As per Section 21 of the TNVAT Act, every dealer liable to pay tax under this Act, shall file return, in the prescribed manner, along with proof of payment of tax. Rule 7 of the TNVAT Rules, 2007, provides that every registered dealer liable to pay tax under the Act shall file return for each month in Form I on or before 20th of the succeeding month to the assessing authority in whose jurisdiction his principal place of business is situated.

According to Section 22 of the Act, if no return is submitted by the dealer for that year, the assessing authority shall, after making such enquiry as it may consider necessary, assess the dealer to the best of its judgement. Further, in addition to the tax so assessed, the assessing authority shall direct the dealer to pay 150 *per cent* of the tax assessed as penalty. Further, under Section 64(4) of the Act, the Commissioner may order for audit of the business of any registered dealer who has not filed returns within the prescribed period.

In order to ascertain whether the Department is utilising the information on tax deducted at source (TDS) available with them to check the filing of returns by the dealers, we cross checked the details of works contracts executed by 29 contractors both within and outside the state for Southern Railway (Construction Wing), Power Grid Corporation Ltd., Trichy and Corporation of Madurai with the assessment records available in the relevant assessment circles. We found that though these contractors had received a sum of ₹ 50.94 crore for the works executed by them during the years 2006-07 to 2009-10, they failed to file their returns for assessment of the turnover. Though the details of TDS deducted by the contractees was deposited with the Department, the Department did not utilise the information available with them to ensure filing of returns by the contractors to assess the correct tax liability by these registered dealers. Further, for non-filing of returns, penalty at the prescribed rate is also leviable.

After we pointed this out (February 2011), the Department agreed (February 2011) to take action. We are awaiting further reply (December 2011).

We reported the matter (April 2011) to the Government and are awaiting their reply (December 2011).

We recommend that the systems be strengthened to ensure filing of returns and to ascertain correct payment of tax.

2.15.4 Delay in remittance of tax deducted at source

As per Section 13 of the TNVAT Act, 2006, every person responsible for paying any sum to any dealer for execution of works contract shall deduct an amount calculated at the prescribed rate and deposit the sum so deducted to such authority, in such manner and within such time, as may be prescribed. Further, any person who contravenes the provisions shall pay, in addition to the amount required to be deducted and deposited, interest at one and a quarter *per cent* per month of such amount for the entire period of default. In terms of the Explanation under the Section *ibid*, the term 'person' shall include a local body also.

Rule 9(1) of the Tamil Nadu Value Added Tax Rules, 2007, provides that any person who makes a deduction of tax under Section 13, shall deposit the sum so deducted to the assessing authority having jurisdiction over the person or any other authority authorised to receive such payment, on or before the 20th day of the succeeding month in which the deduction was made with a statement in Form R.

We noticed (February 2011) during audit in Tallakulam assessment circle that the Corporation of Madurai deducted tax of ₹ 3.37 crore on the payments made to the contractors during the years 2007-08 to 2009-10 but failed to remit the tax on the due dates. The delay ranged from one month to 23 months which warrants levy of interest. The interest leviable worked out to ₹ 9.63 lakh. Though the information of tax deducted and tax paid was available with the Department, no action was taken to levy the interest. The amount of TDS pending remittance at the end of March 2010 was ₹ 2.28 crore.

After we pointed this (February 2011) out, the Commissioner of Commercial Taxes addressed the Commissioner, Corporation of Madurai insisting upon the need for timely remittance of TDS. We are awaiting further reply (December 2011).

We reported the matter (February 2011) to the Government and are awaiting their reply (December 2011).

We recommend that interest be levied in all cases of delayed remittance of TDS.

2.16 Non-compliance of the provisions of the Sales Tax Act/Rules

The provisions of the Tamil Nadu General Sales Tax (TNGST) Act and the Rules made thereunder require:

(i) Payment of tax on sale or purchase of goods at the rates prescribed in the Schedules to the Act; and

(ii) Payment of admitted tax along with the returns and in case of default the payment of penalty/interest at the rates prescribed in the Act.

We noticed non-compliance of the provisions of the Act/Rules in some cases involving non/short realisation of ₹ 3.30 crore. These cases are mentioned in paragraphs 2.16.1 to 2.16.7.

2.16.1 Incorrect grant of exemption

Under the Tamil Nadu General Sales Tax Act, 1959, (TNGST Act) sales of electrically operated travelling (EOT) cranes were taxable at the rate of 12 *per cent* at the point of first sale in the State. In addition, surcharge at the rate of five *per cent* was also leviable thereon.

The Government by a notification dated 17 December 1997, as amended on 1 April 1998, issued under Section 17 of the Act exempted the tax payable by any dealer on the sale of raw materials, packing materials and consumable goods to registered hundred *per cent* export oriented units located in the state.

We noticed (April 2010) during audit in Mettupalayam Road assessment circle, Coimbatore, that the sale of EOT cranes valued at ₹ 50.47 lakh made by a dealer, during the year 2005-06, to a hundred *per cent* export oriented unit was allowed exemption on the strength of the notification issued in April 1998. However, EOT crane being capital goods was not eligible for exemption, as capital goods were not covered in the said notification. This resulted in non-levy of tax of ₹ 6.36 lakh.

After we pointed this out (April 2010), the assessing authority replied (April 2010) that the exemption would be available if covered by Form H[12] declaration. The reply was not acceptable as the exemption was granted under the Tamil Nadu General Sales Tax Act and not under Section 5(3) of the Central Sales Tax Act. We are awaiting further report from the Department (December 2011).

We reported the matter (March 2011) to the Government and are awaiting their reply (December 2011).

[12] Form H is a declaration form used by the dealers to claim exemption on their pre-export sales under Section 5(3) of the CST Act, 1956.

2.16.2 Application of incorrect rate of tax

Under the provisions of the TNGST Act, tax is leviable on the sale or purchase of goods at the rates and at the points mentioned in the relevant schedules to the Act.

We noticed (April/May 2010) during test check of the assessment records in three assessment circles that the assessing authorities while finalising the assessments of three dealers for the years 2005-06 and 2006-07 adopted incorrect rates of tax on the turnover of ₹ 241.42 lakh. This resulted in short levy of tax of ₹ 12.45 lakh as detailed in the following table:

Sl. No	Assessment circle (No. of dealers)	Year of transaction	Commo—dity	Taxable turn-over (₹ in lakh)	Rate of tax appli-cable	Rate of tax adopted	Short levy of tax (₹ in lakh)
1	Mettupalayam Road, Coimbatore, (1)	2005-06	Hoists	27.66	20	3	4.94
After we pointed this out (April 2010), the assessing authority stated (April 2010) that as the sale was effected against Form XVII[13] declarations, the purchasing dealer alone was liable for differential rate of tax and penalty for misuse of Form XVII declarations. We do not agree with the reply, as concessional rate of tax under Section 3(5) was applicable only in respect of goods falling under the eighth schedule and 'hoist' falling under the first schedule was not eligible for concessional rate of tax							
2	Vadapalani-II (1)	2006-07	Interior decorations (other than 'civil works')	181.94	4	2	3.82
After we pointed this (May 2010) out, the Department revised the assessment (February 2011) and raised additional demand for ₹ 3.82 lakh. We are awaiting the collection details (December 2011).							
3	Tirunelveli Bazaar (1)	2005-06	Steel furniture	31.82	12	1	3.69
After we pointed this (May 2010) out, the Department revised the assessment (November 2010) and raised additional demand for ₹ 3.69 lakh. We are awaiting the collection details (December 2011).							

We reported the matter (May 2011) to the Government and are awaiting their reply (December 2011).

2.16.3 Short levy of tax

Under entry 18 of the Eleventh Schedule to the TNGST Act, 'white kerosene (superior kerosene oil)' was taxable at the rate of 25 *per cent* from 21 March 2003 to 31 December 2006. As per Section 2(1)(aa) of the Tamil Nadu Additional Sales Tax Act, 1970, additional sales tax at the prescribed rate was required to be paid by a dealer whose taxable turnover exceeds ten crore of rupees.

2.16.3.1 We noticed (April 2009) during audit in Ayanavaram assessment circle, Chennai that in respect of an assessee, the enforcement wing of the Department,

[13] Form XVII is used by the dealers to purchase specified goods at concessional rate of tax under Section 3(3) and 3(5) of the Tamil Nadu General Sales Tax Act, 1959.

through a D3[14] proposal for the year 2002-03, informed the assessing authority to ascertain whether 3,000 MT (3846.150 KL) of white kerosene imported by the assessee in April 2003 had been duly accounted for by him. We further noticed that the assessee had declared the purchase of only 152 KL of white kerosene in the monthly return for April 2003. Though the assessee suppressed the purchase of 3,694.150 KL of white kerosene, the assessing authority omitted to consider this suppression and assess the corresponding sales turnover of ₹ 5.17 crore[15]. This resulted in short levy of tax of ₹ 1.47 crore.

After we pointed this out to the Department (August 2009) and to the Government (March 2010), the Government accepting our audit observation intimated (July 2010) that the assessment was revised raising an additional demand of ₹ 1.47 crore. We are awaiting report on collection particulars (December 2011).

Under entry 67 of Part B of the first schedule to the TNGST Act, on sale of vegetable oil of all kinds tax was leviable at the rate of four *per cent* at the point of first sale in the state.

As per Section 3H of the Act every dealer is liable to pay tax at one *per cent* on the turnover of resale of goods specified in the first schedule and the eleventh schedule.

Section 10(3) of the Act states that where any dealer knowingly produces a false bill, voucher, declaration certificate or other document with a view to support or make any claim that a transaction of sale or purchase effected by him is not liable to be taxed or is liable to be taxed at a lower rate, the assessing authority shall, on detecting such production, direct the dealer producing such document to pay as penalty a sum which shall be, in the case of first detection, 50 *per cent* of the tax due and in respect of second or subsequent detections, 100 *per cent* of the tax due on such transactions.

2.16.3.2 We noticed during audit (December 2008) in Villupuram-I assessment circle that in respect of a dealer, sales turnover of vegetable oil for the years 2004-05 and 2005-06 amounting to ₹ 2.85 crore had been assessed to tax at the rate of one *per cent* under Section 3 H of the Act, treating them as second and subsequent sales.

We cross verified the purchase transactions of the assessee with two dealers in Pollachi, from whom the assessee had purchased vegetable oil for ₹ 17.01 lakh and ₹ 40.57 lakh during the years 2004-05 and 2005-06 respectively and found that the selling dealers had closed their business much prior to the date on which the purchases were stated to have been made by the assessee. We brought the incorrect claim of second sales by

[14] The findings of the inspections conducted by the enforcement wing are forwarded to the concerned assessing authority for implementation, in the form of D3 proposals.

[15] Sale value of kerosene was taken at ₹ 14 per litre as adopted by the Department.

the assessee to the notice of the Department and suggested (December 2008) that they should verify the genuineness of the entire purchases stated to have been made by the dealer. The Department re-examined the records and found that the dealer had reported fictitious purchases for a value of ₹ 1.57 crore during the years 2004-05 and 2005-06, in order to evade tax and hence revised (January 2010 and April 2010) the assessments raising an additional demand of ₹ 5.08 lakh, besides levy of penalty of ₹ 5.08 lakh. We are awaiting collection particulars from the Department (December 2011).

We reported the matter to the Government (May 2011) and are awaiting their reply (December 2011).

2.16.4 Erroneous treatment of sale as works contract

As per entry 5(i) of Part E of the first schedule to the TNGST Act, 1959, tax on sale of "generating sets" was leviable at the rate of 16 *per cent* at the point of first sale in the state upto 31 December 2006. In addition, surcharge at the rate of five *per cent* was also leviable, on the tax, under Section 3-I of the Act.

According to Section 7C of the Act, a dealer, who is a works contractor, has the option of paying tax at four *per cent* of the total contract value of the works, other than civil works, executed by him.

The Supreme Court has held[16] that if a thing to be delivered has any individual existence before delivery as the sole property of the party who is to deliver it, then it is a sale; if the major component of the end product is the material consumed in producing the chattel to be delivered and skill and labour are employed for converting the main components into the end products but the skill and labour are only incidentally used, then the delivery of the end product by the seller to the buyer will constitute a sale.

We noticed during audit (November 2010) in Harbour II assessment circle, that a sum of ₹ 1.06 crore received by a dealer during the year 2006-07 (upto December 2006) from M/s. BSNL, was assessed to tax at four *per cent* under Section 7 C of the Act as works contract even though the predominant portion of the contract constituted supply of diesel generating sets only (₹ 121.53 lakh towards material cost and ₹ 2.75 lakh towards labour charges for the whole year). The erroneous treatment of sale as works contract resulted in short levy of tax of ₹ 13.34 lakh.

After we pointed this (November 2010) out, the Department replied (January 2011) that the contract with BSNL was not only for supply of 'diesel generating set' but also installing the same involving technical skill and labour. It was also contended that the diesel generating set is also a 'power supply based power plant' eligible for reduced rate of tax of four *per cent* as per notification issued by the Government[17]. We do not agree with the reply of

[16] Hindustan Shipyard Limited Vs. State of Andhra Pradesh – 119 STC P.533(SC) State of Andhra Pradesh Vs. Kone Elevators – 140 STC P.22 (SC).

[17] No. II(1)/CT/19(6-17)/2002 dated 27.03.2002.

the Department, since the diesel generating sets delivered to the customer have an individual existence and the predominant portion of the contract constituted sale of goods only. Further, the reduced rate of tax was not applicable to diesel generating sets as the notification did not cover generating sets. It was also judicially held[18] that a 'diesel generating set' is a distinct and different class from 'switch board power supply and power plant for telecom application'. We are awaiting further reply from the Department (December 2011).

We reported the matter (April 2011) to the Government and are awaiting their reply (December 2011).

2.16.5 Excess availment of deferral of sales tax

The Interest Free Sales Tax (IFST) deferral scheme enables industries to pay their sales tax after completion of the period of deferral, without interest thereon. The scheme is implemented by agencies such as the State Industries Promotion Corporation of Tamil Nadu Limited, Tamil Nadu Industrial Investment Corporation Limited, etc. They issue Eligibility Certificates (ECs) specifying the eligible amount and period of deferral based on which the industries are allowed to avail the deferral scheme.

The Government had issued instructions in May 1991 that if tax had been paid by the assessees for the period included in the ECs for sales tax waiver/deferral before the actual issue of ECs, the period of deferral/waiver would be rescheduled suitably by the implementing agencies concerned at the request of the assessees, subject to overall ceiling of investments. The ECs issued by the implementing agencies also stipulate that the amount of deferral/waiver during such extended period be restricted to the amount of tax already paid by the assessees.

We noticed (August 2010) during test check of the assessment files and other records in Tirupur (South) assessment circle that a dealer had availed deferral of sales tax, in respect of an expanded unit, for the period from April 1997 to March 2006 with an overall ceiling limit of ₹ 2.88 crore. As the orders for deferral were issued only on 12 November 2001, the dealer had paid tax of ₹ 1.05 crore during the period from April 1997 to July 2001. The period of deferral was rescheduled from 1 August 2001 to 31 July 2010. Thus, as per orders for rescheduling, the amount of deferral during such extended period be restricted to tax already paid i.e. ₹ 1.05 crore. Our scrutiny of records revealed that during the extended period the dealer had availed deferral of ₹ 1.85 crore. This resulted in excess availment of deferral of ₹ 80.42 lakh, during the period from April 2006 to June 2010.

After we pointed this out (August 2010), the Department

[18] Reliance Generators Pvt. Ltd. Vs Special Commissioner and Commissioner of Commercial Taxes, Chepauk, Chennai and another – 20 VST 136.

contended (August 2010) that the overall limit for deferral amount should include sales tax actually paid as well as the sales tax deferral availed during the period of deferral. We do not agree with the reply of the Department since the EC issued by SIPCOT clearly stipulates that the sales tax benefit for the extended period should be restricted to the sales tax already remitted. We await further reply from the Department (December 2011).

We reported the matter (April 2011) to the Government and are awaiting their reply (December 2011).

2.16.6 Non-levy of additional sales tax

In terms of Section 2(1)(aa) of the Tamil Nadu Additional Sales Tax Act, 1970, additional sales tax at the prescribed rates is required to be paid by a dealer whose taxable turnover exceeds ten crore of rupees. In respect of dealers who opt to pay tax at compounded rate under Section 7C of the TNGST Act, 1959, the additional sales tax shall be calculated on the turnover assessable under the section *ibid*.

In Adyar-II assessment circle, we noticed (July 2010) that in respect of one dealer the assessing officer had omitted to levy additional sales tax even though the taxable turnover of the dealer exceeded ₹ 10 crore for the assessment year 2005-06. The non-levy of additional sales tax worked out to ₹ 10.24 lakh.

We pointed this out to the Department/Government (July 2010/March 2011) and are awaiting their reply (December 2011).

2.16.7 Non-levy of interest

As per Section 24(3) of the TNGST Act, on any amount remaining unpaid after the date specified for its payment, the dealer shall pay, in addition to the tax due, interest at one and a half *per cent* per month for the first three months and at two *per cent* per month for the remaining period of default. According to Section 13(2) of the Act, the tax shall become due, without issue of any notice of demand to the dealer, on the date of receipt of the return or on the last due date prescribed, whichever is later. As per Section 9(2-A) of the CST Act, the provisions relating to interest on belated payment of tax under TNGST Act shall apply in respect of interest leviable under the CST Act also.

2.16.7.1 We observed during audit (February / November 2010 and February 2011) in three assessment circles[19] that three dealers had paid tax of ₹ 43.86 lakh belatedly. However, interest of ₹ 27.47 lakh for such belated payment of tax was omitted to be levied.

After we pointed this out (February/ November 2010 and

[19] Ambattur, Esplanade I and Fast Track Assessment Circle-II (Coimbatore).

February 2011), the Department demanded (December 2010) interest in one case and in another case stated (November 2010) that notice would be issued. In respect of the third case, the Department contended (February 2011) that levy of interest on belated payment does not arise in those cases where higher rate of tax was adopted for non-submission of declaration forms. We do not accept the reply of the Department since there is no provision in the Act to preclude levy of interest in such circumstances. We are awaiting further report from the Department (December 2011).

We reported the matter to the Government (April/May 2011) and are awaiting their reply (December 2011).

2.16.7.2 We noticed (June 2010) in Harbour V assessment circle that though a dealer had paid tax of ₹ 11.35 lakh after a delay of 28 months and two days, interest of ₹ 6.20 lakh was omitted to be levied.

After we pointed this out (June 2010), the assessing authority agreed to take action based on our observation. We are awaiting further report from the Department (December 2011).

We reported the matter (April 2011) to the Government and are awaiting their reply (December 2011).

As per Section 7F of the TNGST Act, every person responsible for paying any sum to any dealer for execution of works contract shall deduct an amount calculated at prescribed rates and deposit the sum so deducted to such authority, in such manner and within such time, as may be prescribed. Further, any person who contravenes the above provisions shall pay, in addition to the amount required to be deducted and deposited, interest at two *per cent* per month on such amount for the entire period of default.

Rule 18-F of the Tamil Nadu Sales Tax Rules, 1959, provides that any person who makes a deduction of tax under Section 7F, shall deposit the sum so deducted to the assessing authority having jurisdiction over the person within the 12th day of the succeeding month in which the deduction was made.

2.16.7.3 We noticed (March 2011) in Palakarai-I assessment circle, Trichy, that an assessee, who deducted tax on the payments made to the contractors during the years 2005-06 and 2006-07, deposited the amount belatedly, which attracts levy of interest. However, interest amounting to ₹ 15.99 lakh was not levied.

We pointed this out to the Department/ Government in March 2011/April 2011 and are awaiting their reply (December 2011).

2.17 Cross check of records

According to Standing Order 226 (4) of the Tamil Nadu Commercial Taxes Manual, the Central Excise Department can offer useful data about the cases of evasion. The field officers of the Commercial Taxes Department have to

get the details of such evasion detected by the Central Excise Department and investigate them.

In order to ascertain whether the Department has established a system to obtain the information from the Central Excise authorities to utilise the same for making assessments/revision, we cross verified the orders of the Settlement Commission, Customs and Central Excise, Chennai and Orders-in-Original passed by the Central Excise Department with the assessment records in the commercial tax offices and observed the following:

Under Section 16(1)(a) of the TNGST Act, where the whole or any part of the turnover of the business of a dealer has escaped assessment to tax, the assessing authority may determine to the best of its judgement the turnover which has escaped assessment and levy tax thereon. Section 16(2) of the Act provides that in making an assessment of the escaped turnover under Section 16(1)(a) *ibid*, the assessing authority may levy penalty at the prescribed rates.

2.17.1 We noticed (March 2011) during such cross verification of information, cases relating to suppression of sales turnover by the assessees by using various methods like keeping two sets of invoices, undervaluing the sales, clandestine removal of goods, etc. and misclassification of goods resulting in escapement of taxable turnover and adoption of incorrect rate of tax during the years 1998-99 to 2006-07 involving tax and penalty of ₹ 3.24 crore in respect of 12 dealers in 11 assessment circles[20] as detailed in **Annexure-II**. Two illustrative cases are discussed in the following paragraphs:

- An assessee in Brough Road assessment circle, Erode, a manufacturer of pre-stressed concrete pipes, undervalued the goods cleared during the year 2001-02 by fabricating the statutory records in order to avail SSI exemption. The Central Excise authorities initiated action by issuing a Show Cause Notice dated 9 October 2002 demanding a duty of ₹ 33.33 lakh. The assessee approached the Settlement Commission and the Commission in their order dated 19 May 2003 confirmed the above demand. We noticed that the Commercial Taxes Department did not obtain the information about the suppression of turnover from the Settlement Commission and assess the turnover to tax. The tax and penalty involved worked out to ₹ 48.33 lakh.

- An assessee in Erode Rural assessment circle, who manufactured MS ingots and rods, clandestinely cleared the goods manufactured by it, between April 2006 and September 2006 without paying the central excise duty. The clandestine removal of goods was detected by the Central Excise Department and the duty liability was confirmed in Order-in-Original passed by the Commissioner of Central Excise, Salem, in January 2011. We noticed that the Commercial Taxes Department did not obtain the information on the suppressed turnover from the Central Excise Department and assess the sales turnover to tax. The tax and penalty involved worked out to ₹ 20.91 lakh.

[20] Adyar-II, Avarampalayam (Coimbatore), Brough Road (Erode), Dindigul (Rural), Erode (Rural), Kilpauk, Sankari, Sriperumpudur, T.Nagar (South), Tiruppur (South), and Woraiyur (Trichy).

Thus the Commercial Taxes Department did not follow the provisions of their own Manual which provides for obtaining the information available with the Central Excise Department for using the same in making assessment/revision of assessment in these cases.

We pointed this out to the Department and to the Government in March/April 2011 and are awaiting their reply (December 2011).

We recommend that the Commissioner of Commercial Taxes may prescribe a system for cross verification of records with other Departments to detect evasion of tax.

2.17.2 We cross verified the information available in the orders passed by the Settlement Commission, Customs and Central Excise, Chennai, with the relevant records maintained in Woraiyur assessment circle, Trichy, and found that in respect of an assessee, for the year 2002-03, though suppression of purchase turnover amounting to ₹ 22.94 crore was brought to assessment, penalty of ₹ 1.38 crore leviable was not levied.

We pointed this out to the Department and to the Government in March/April 2011 and are awaiting their reply (December 2011).

CHAPTER III

LAND REVENUE

Executive Summary

Marginal decrease in tax collection	In 2010-11 the collection of land revenue decreased marginally by three *per cent* over the previous year.
Results of audit conducted by us in 2010-11	In 2010-11 we test checked the records of 88 units relating to short recovery of value/rent in respect of land assigned, alienated or evicted, non-renewal of leases, non-revision of lease rent, etc involving ₹ 108.30 crore in 161 cases. The Department accepted under assessments and other deficiencies amounting to ₹ 88.41 lakh in 61 cases and collected the amount, out of which ₹ 2.61 lakh involved in one case was pointed out during 2010-11 and the rest in earlier years.
What we have highlighted in this Chapter	We conducted a performance audit on **"Land administration and collection of land revenue"** in the offices of the Tahsildars and the respective Collectorates besides the Commissionerate. In this chapter we present important observations like non-renewal of leases/non-revision of lease rent, delay in alienation of Government lands, encroachment of Government lands, etc., involving a money value of ₹ 82.81 crore. It is a matter of concern that though similar omissions have been pointed out by us repeatedly in the earlier Audit Reports, the Department has not taken corrective action. We are also concerned that though these omissions were apparent from the records which were made available to us, the Department was unable to detect these mistakes.
Our conclusion	The Department needs to improve the monitoring mechanism to ensure renewal of leases after the expiry of lease period or to resume the land. It also needs to initiate action to alienate lands where enter upon permission has been given and to take appropriate action against encroachment.

CHAPTER III
LAND REVENUE

3.1 Tax administration

Land revenue in the State comprises revenue from agricultural lands, land cost in cases of alienation of Government lands, lease rent (including local cess and local cess surcharge) in cases of leasing of Government lands, penalty in cases of encroachment on Government lands, cost of survey operations, cost of establishment of survey staff lent to local bodies, etc. The levy and collection of the land revenue is monitored through Board of Revenue Standing Orders and Government Orders, issued from time to time.

3.2 Analysis of arrears of revenue

The arrears of revenue pending as on 31 March 2011 is given in the following table:

(₹ in crore)

Head of revenue	Amount outstanding as on 31 March 2011	Amount outstanding for more than five years as on 31 March 2011	Remarks
Land Revenue	27.51	8.17	Out of ₹ 27.51 crore, demands of ₹ 3.75 crore were stayed by the High Court and other judicial authorities. ₹ 3.42 crore was stayed by the Government. ₹ 14.68 crore was under various stages of collection. ₹ 5.66 crore has since been collected.

The above details indicate that 53 *per cent* of arrears are under various stages of collection.

We recommend that in the interest of revenue, the Government may fix targets for collection of the arrears in a time bound manner and closely monitor the performance of the Departmental officers vis-à-vis the set targets.

3.3 Impact of Audit Reports

3.3.1 Revenue impact

During the last five years, we had pointed out through our Audit Reports non/short levy, non/short realisation of land cost/lease rent, loss of revenue, with revenue implication of ₹ 12.36 crore in 10 paragraphs. Of these, the Department/Government had accepted audit observations involving ₹ 7.34 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Accepted money value	Amount recovered
	Number	Money value		
2005-06	1	0.59	----	----
2006-07	2	1.90	0.38	----
2007-08	1	3.09	3.09	----
2008-09	3	0.80	0.25	----
2009-10	3	5.98	3.62	----
Total	**10**	**12.36**	**7.34**	

The above table indicates that though an amount of ₹ 7.34 crore has been accepted, no amount has been recovered.

The Government may issue instructions for recovery of the amounts involved in accepted cases.

3.4 Results of Audit

We test checked the records of 88 Departmental offices during the period from April 2010 to March 2011 and found short recovery of value/rent in respect of land assigned, alienated or evicted, non-levy of water cess, betterment contribution and penalty/interest and other observations amounting to ₹ 108.30 crore in 161 cases**,** which broadly fall under the following categories.

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1	**Land administration and collection of land revenue (A performance audit)**	1	82.81
2	Short recovery of value/rent in respect of land assigned, alienated or evicted	95	23.02
3	Non-levy of water cess, betterment contribution and penalty/interest	3	0.01
4	Other observations	62	2.46
	Total	**161**	**108.30**

During the course of the year 2010-11, the Department accepted under assessments and other deficiencies amounting to ₹ 88.41 lakh in 61 cases and collected the amount, out of which ₹ 2.61 lakh involved in one case was pointed out during the year and the rest in earlier years.

A performance audit on **"Land administration and collection of land revenue**" with financial impact of ₹ 82.81 crore is mentioned in the following paragraphs:

3.5 Performance audit on Land administration and collection of land revenue

Highlights

- Non-renewal of leases/non-revision of lease rent resulted in non-realisation of lease rent of ₹ 39.69 crore.

(Paragraph 3.5.9)

- Land cost amounting to ₹ 35.33 crore in respect of Government lands alienated was not collected.

(Paragraph 3.5.10)

- Delay in alienation of Government lands after grant of 'enter upon permission' resulted in non-collection of land cost of ₹ 440.79 crore.

(Paragraph 3.5.11)

- 6,772.54 acres of Government lands valuing ₹ 189.89 crore were encroached in 55 cases.

(Paragraph 3.5.12.1 & 3.5.12.2)

- 7,065 acres of land meant for water courses valuing ₹ 901.76 crore and 685.70 acres of land noted in 'Prohibitive Order Book' valuing ₹ 129.12 crore were encroached in 19,369 and 1,116 cases respectively.

(Paragraph 3.5.12.3 & 3.5.12.4)

- Non-resumption of Government land for violation of conditions of assignment/lease resulted in land valued at ₹ 14.30 crore remaining with the offenders.

(Paragraph 3.5.14.1)

3.5.1 Introduction

Land revenue in the State comprises revenue from agricultural lands, land cost in cases of alienation of Government lands, lease rent (including local cess and local cess surcharge) in cases of leasing of Government lands, penalty in cases of encroachment on Government lands, cost of survey operations, cost of establishment of survey staff lent to local bodies, etc. The levy and collection of the land revenue is monitored through Board of Revenue Standing Orders and Government Orders, issued from time to time.

3.5.2 Organisational set-up

The Principal Secretary, Revenue Department is the head at the Government level. The Department is administered by the Special Commissioner and Commissioner of Land Administration (CLA), Commissioner of Revenue Administration (CRA), Commissioner of Land Reforms (CLR) and Commissioner of Survey and Settlement (CSS). They are assisted by the Collectors at the district level. The district collectors are assisted by the territorial Tahsildars at taluk level who levy and collect land revenue.

3.5.3 Audit objectives

The performance audit was conducted with a view to examine whether

- the Department had followed the laid down procedure for grant/ renewal/revision of lease and alienation/assignment of the Government lands;
- adequate system exists for monitoring the realisation of revenue from the Government lands;
- adequate systems exist to assess the efficacy of mechanism to detect, evict and regularise encroachments on the Government lands, resume lands where violation of conditions noticed; and
- adequate system exists to effect cost of survey staff, automatic patta transfers by the Revenue Department with reference to the applications received from the Registration Department.

3.5.4 Scope of audit

We test checked the records of 76 out of 220 taluk offices for the period from 1 July 2005 to 30 June 2010 (*fasli*[21] 1415 to 1419) between December 2010 and March 2011 with a view to examining the correctness of assessment and collection of land revenue. The selection was made on best judgement basis. We selected Corporation area/district headquarters where there were more lease cases and the value of the land was high.

3.5.5 Acknowledgement

We acknowledge the co-operation extended by the Revenue Department in providing us the necessary records and information. An entry conference was held with the Principal Secretary to the Government, Revenue Department in December 2010, in which we explained the audit objectives, scope and methodology. The statement of facts was forwarded to the Department and the Government in June 2011. The exit conference was held with the Principal Secretary to the Government, Revenue Department in June 2011. The replies of the Government/Department received during the exit conference and at other times have been appropriately incorporated in the performance audit.

3.5.6 Trend of revenue

The budget estimates and the actual receipts under land revenue for the period from 2005-06 to 2010-11 are given in the following table:

[21] A revenue year commencing from 1st July and ending on 30th June.

(₹ in crore)

Year	Budget estimates	Actuals	Variation excess(+) or short fall (-)	Percentage of variation
2005-06	25.46	179.48	(+) 154.02	605.00
2006-07	52.63	120.68	(+) 68.05	129.00
2007-08	70.77	78.03	(+) 7.26	10.00
2008-09	146.18	207.73	(+) 61.55	42.11
2009-10	29.88	116.66	(+) 86.68	289.13
2010-11	38.79	113.28	(+) 74.49	192.03

The increase in the year 2008-09 was due to increase in the rates of local cess and local cess surcharge. The decrease in the estimate for the year 2009-10 was due to elimination of local cess, local cess surcharge and all other levies except land revenue. In 2010-11 the collection of land revenue decreased marginally by three *per cent* over the previous year. The Department stated that the reasons for variation in the actuals in 2009-10 and 2010-11 over the budget estimates was due to receipts from *ryotwary* arrears and interest thereon.

3.5.7 Internal control mechanism

In the Department, the system of internal control exists through the annual *jamabandhi*[22] conducted at taluk level. Review meetings at District/ Department level are also conducted once in a month in which collection of land revenue, arrears position, encroachments, etc. are discussed. Further, in respect of encroachment of the Government lands, periodical returns are obtained from the districts every month, compiled and sent to the Government.

In respect of alienation, no returns are obtained from the districts. However, the cases were taken up in review meetings based on the intensity and urgency of the cases. In respect of lease cases, demand collection balance (DCB) statements alone were obtained from the districts every month, which were also discussed during the review meetings. The Department replied (September 2011) that instructions have been issued, based on our observation, to all district level officers to maintain a register to record the details of lease cases and furnish the copies of the same to the CLA.

Further, there is no separate internal audit wing under CLA. An internal audit wing headed by the Chief Audit Officer functions under the control of CRA to check and have a control over the expenditure incurred on establishment, monitoring of schemes, etc.

Audit findings

3.5.8 Absence of database of Government land

As land is a valuable asset of the Government having rapidly increasing market value, it is important for the Department to have a complete and updated database of the actual Government land available, the extent thereof alienated or leased out or encroached upon and pendency of lease/

[22] Annual settlement of revenue.

alienation/encroachment cases at different levels of the revenue administration.

We noticed that no such database was available either at the Government level or at the Department level. This indicates that the Department did not maintain the basic information which is required for efficient management of the Government lands in the matter of lease, alienation and encroachment.

After we pointed this out, the Department stated (September 2011) that instructions have been issued to all district level officers to maintain a register to record the details of lease cases and furnish the copies of the same to the CLA.

We recommend that the Government may instruct the Department to maintain a complete and updated database at CLA level of the actual Government land available, the extent thereof alienated or leased out or encroached upon and pendency of lease/alienation/encroachment cases.

3.5.9 Leasing of Government lands

Under the provisions of Revenue Standing Order (RSO) 24-A, Government lands can be leased to individuals, private organisations, trusts, companies and other Government bodies for a specified period with certain conditions.

According to standing instructions[23] of the Government, the proposals for revision of lease should be sent by the District Administration to the Commissioner of Land Administration/Government, as the case may be, three months in advance prior to the expiry of the existing lease period.

As per the Government Order[24] issued in 1998 lease rent was fixed at seven *per cent* per annum on the market value of the land leased for non-commercial purposes and at 14 *per cent* for commercial purposes. The lease rent can be revised once in three years with reference to the market value[25] of the land leased. However, in specific cases, the lease of land was granted on nominal annual lease rent by the Government, in public interest.

Renewal proposals were to be forwarded six months in advance prior to the expiry of the existing lease by the Tahsildar through the District Collector to the appropriate authority. The value of all the lands had appreciated considerably from 2005-06 onwards throughout the State. Hence, the limit of monetary powers delegated made most of the cases beyond the powers of the lower level and hence decision could not be taken at these levels.

Further, as per the order[26] issued (2001) by the Government based on an earlier audit observation, in respect of cases where the lease period have expired and are pending for renewal, the lease rent has to be tentatively arrived at by adding 12 *per cent* every year over the previous lease rent.

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23 Letter (Ms) No.430/2000, dated 31.10.2001.
24 G.O. Ms.No.460, Revenue Department, dated 04.06.1998.
25 Market value is taken as the value of the adjacent patta land.
26 Government order 324 Revenue dated 10 September 2001.

Mention was made in the Comptroller and Auditor General of India's Report for the year ending 31 March 2005 about non-renewal of lease cases, non-revision of lease rent, delay in alienation, etc. However, we observed that in eight cases test checked by us out of 22 cases included in the Audit Report, the cases have still not been finalised.

We further observed from test check of the lease files pertaining to 24 taluk offices[27] that in 36 cases **(Annexure III & IIIA)**, 47.04 lakh square feet of the Government lands was given on lease in favour of individuals/private enterprises/institutions/Government undertakings with the condition that the lease rent was to be revised once in three years with reference to the market value. In 25 of the above 36 cases, leases were not got renewed after the expiry of the lease period despite continued occupation by the original lessees.

- in 22 cases lease rent at old rates were collected **(Annexure III)**. In respect of these cases the order of the Government for adding 12 *per cent* increase every year over the previous lease rent was not followed by the Department
- in three cases lease rent was not collected at all **(Annexure III A)**.
- in the remaining 11 cases, the lease rent has not been revised once in three years with reference to the market value **(Annexure III B)**.

This resulted in non-realisation of revenue of ₹ 39.69 crore for the period from 2005-06 to 2009-10 in respect of all the 36 cases. The lease rent has been calculated based on the market value of the land as stated by the Department in the proposals.

A few illustrative cases are given in the following paragraphs:

(i) We observed from the lease files at the office of the Tahsildar (LR), Salem, that land measuring 37,995 sq.ft. in Hasthampatti village was leased out to the District Club, Salem from 22 August 1969 to 21 August 1979. The lease was renewed for a further period of 10 years each from 1979 to 1989 and from 1989 to 1999. The lease amount was fixed at ₹ 15,000 per annum during the last lease period. We further observed that the renewal proposal for a further period of 10 years from 1999 to 2009 was forwarded by DRO in November 2003 to CLA fixing the lease rent at ₹ 11.96 lakh per annum for the period from 1999 to 2002 and ₹ 12.33 lakh per annum for the period from 2002 to 2005 which has not been finalised so far. Based on the lease rent proposed in 2003 and applying the 12 *per cent* increase as per the GO issued in 2001, the lease rent for the period from 2005-06 to 2009-10 worked out to ₹ 2.52 crore against which the Department had collected ₹ 75,000 only. The non-renewal of lease resulted in non-collection of lease rent of ₹ 2.51 crore (besides ₹ 71.95 lakh for the period from 1999-2000 to 2004-05).

After we pointed this out (between March 2011 and December 2011), the CLA replied (December 2011) that the proposal for fixation of lease rent for the period from 22 August 1999 to 21 August 2005 was sent to the

[27] Alandur, Avinashi, Coimbatore (North), Cuddalore, Karur, Kilvelur, Madurai (South), Maduranthakam, Mambalam-Guindy, Mayiladuthurai, Mettur, Mylapore-Triplicane, Nagapattinam, Panthalur, Ramnathapuram, Salem, Thanjavur, Tharangambadi, Tiruppur, Thoothukudi, Tirunelveli, Tiruvallur, Trichy and Vridhachalam.

Government and the further particulars called for by the Government are awaited from the concerned District Collector. However, the reply was silent about non-renewal of the lease for the period from 1999 onwards.

(ii) We observed from the lease files in the office of the Tahsildar (LR), Maduranthakam, that land measuring 18.11 acre situated in Silavattam village, was leased out to M/s. U.E. Development India Private Ltd. in January 2008 for nine years from 4 March 2003 to 3 March 2012. The original lease rent fixed was ₹ 1.87 lakh per annum for three years from 4 March 2003 to 03 March 2006 and the same was paid by the lessee. We also noticed that the lessee had not paid the lease rent for the period from 4 March 2006 to 03 March 2010. The Tahsildar, Maduranthakam forwarded a proposal in June 2008 fixing the lease rent at ₹ 17.74 lakh per annum. The Collector, Kancheepuram in December 2009/October 2011 fixed the lease rent at ₹ 19.87 lakh per annum and forwarded the same to DRO for submitting a fresh proposal which has not been submitted so far. This resulted in non-realisation of lease rent of ₹ 59.62 lakh for the period from 2006-07 to 2008-09 (based on the lease rent at ₹ 19.87 lakh per annum fixed by the Collector).

We observed that there was no system of monitoring the renewal/revision of leases and non-collection of lease rents at the apex level (CLA). The CLA replied (December 2011) that the above aspects would now be monitored through maintaining a register to record the details of lease cases. Further in respect of renewal/revision of leases pending at district levels, the details of the stage of pendency as on date in each lease case would be obtained from the District Collectors concerned.

The Government may consider formulating a time frame for renewal of lease/revision of lease rent and establish a monitoring mechanism for strict compliance.

3.5.10 Non-collection/levy of land cost

According to the Revenue Standing Order (RSO) 24(1), the Government lands can be granted for public purpose on collection of the land cost. Further as per RSO 24(3) the term market value or value of occupancy right is meant the value that the land would fetch in the open market, if sold subject to an appropriate charge for land revenue.

We observed from test check of the alienation files in nine taluks in respect of 11 cases, that though alienation orders for lands measuring 821.30 acres were issued between November 1988 and March 2010 and possession of the land handed over, in three cases land cost was fixed but not collected and in eight cases, though the proposals for fixation of land cost have been submitted, they are yet to be finalised. This resulted in non-collection/levy of cost of land of ₹ 35.33 crore **(Annexure IV)** based on cost proposals fixed/proposed.

One illustrative case is given in the following paragraph:

We observed from the alienation file in the office of the Tahsildar (LR), Omalur that land measuring 93.60 acres situated in Karupur and

Kottaigoundanpatti villages was handed over to M/s. Periyar University in September 1997 and the said land was also alienated to the University in April 1999. The proposal fixing the land cost at ₹ 1.05 crore was forwarded by the District Collector, Salem to CLA in July 2006. However, the land cost has not been fixed so far.

3.5.11 Delay in alienation of Government land

According to the RSO 24(1), the Government lands can be granted for public purpose on collection of the land cost. As per RSO 24(2) the authorities competent to grant land may, in cases of emergency, give permission to enter upon the land, pending issue of formal orders sanctioning the grant. Further as per RSO 24(3) the term 'market value' or 'value of occupancy right' means the value that the land would fetch in the open market, if sold subject to an appropriate charge for land revenue. As per RSO 24(5), in all cases, where the value of the land is above ₹ one lakh, the District Revenue Officer/ Collector should personally inspect the lands and record their views on the request of the institution. The proposals for disposal of land should be sent to the competent authorities in prescribed form.

As per Government order[28] issued in 1997, the Department taking over the land should agree to remit the cost as may be fixed by the Collector/ Commissioner for Land Administration/ Government in respect of that land.

All applications for settlement of the Government land by way of alienation are required to be filed before the Tahsildars of the area concerned. These are then entered in a prescribed register in form II, containing details like serial number, date of application, purpose, name and address of the applicant, details of the land sought for alienation, progressive course of action taken until final disposal of the case. The Tahsildars arranges for verification of the record of rights of the land, status, etc. and solicit objections from the public. After consideration of the objections, if any, the Tahsildars forward the proposal to the competent authority.

We observed from test check of the alienation files in 13 taluks that in 17 cases 475.72 acres of Government lands were in possession of the institutions to whom enter upon permissions were granted. The lands were under the possession and enjoyment of those institutions for a period ranging from two to 58 years. However, the alienation proposals have not been finalised so far which resulted in blocking of Government revenue in the shape of land cost of ₹ 440.79 crore (calculated by us based on the guideline value of the land as on 30 June 2010). The details of the cases are given in **Annexure V**.

A few illustrative cases are given in the following paragraphs:

(i) We observed from the alienation file in the office of the Tahsildar (LR), Salem that land measuring 9.88 acres situated in Bodinayakanpatti

[28] G.O.Ms.No.976 Revenue (LDIV) dated 20.10.1997.

village was handed over to M/s. Ramakrishna Sarada School, Salem in January 1991 and the possession of the land is still with the school. However, the Tahsildar (LR), Salem forwarded the proposal for alienation, fixing the land cost at ₹ 21.64 lakh, to RDO, Salem in February 2000. The DRO in December 2004 forwarded the proposal to CLA fixing the land cost at ₹ 1.94 crore as arrived at by adding notional increase every year. The RDO also sent reminders in November 2009/December 2010. The same has not been finalised so far. This resulted in non-collection of land cost of ₹ 25.85 crore as per the guideline value prevailed on 30 June 2010.

(ii) We observed from the alienation file in the office of the Tahsildar (LR), Ambattur that land measuring 33.77 acres was handed over to Small Industries Development Corporation in July 2001. The land cost prevailing at that time was ₹ 33.77 lakh. The proposal for fixing the land cost at ₹ 93.68 lakh was forwarded by the Tahsildar to DRO in November 2010 and the same has not been finalised so far. This resulted in non-collection of land cost.

The CLA stated (December 2011) that in respect of alienation, though no returns are obtained from the districts, the cases are taken up in the review meetings to monitor their status based on the urgency of the cases. We do not agree with the reply as these cases are pending finalisation from two to 58 years.

3.5.12 Encroachment of Government lands

As per the provisions of the Tamil Nadu Land Encroachment Act, 1905, a penalty of ₹ 10 per case is levied on person(s) who have encroached upon the Government land. According to Section 6 of the Tamil Nadu Land Encroachment Act, 1905, any person occupying any Government land may be evicted by any officer authorised by the State Government.

As per the RSO 26(4) unauthorised occupation of Government land may be arranged in the following classes:

(a) Cases in which the occupation, whether permanent or temporary, is unobjectionable.

(b) Cases in which temporary occupation, is unobjectionable but permanent occupation is objectionable.

(c) Cases in which the occupation, whether permanent or temporary, is objectionable.

In cases of encroachments mentioned against item (a), action may be taken to assign the land subject to conditions as may be prescribed. In cases of encroachment mentioned against item (b), the question of granting temporary permission may be considered, but in cases of encroachments which fall in the third category, it should be evicted under RSO 26(4).

At the time of annual *jamabandhi*, the District Collector/nominated Officer was required to check, *inter-alia*, whether the taluk authorities have followed all the procedures envisaged in the Encroachment Act, particularly for prompt

eviction of encroachment of lands or transfer of lands under unobjectionable encroachment.

The meagre penalty provided in the Act for encroachment of Government land has not been revised since 1905 i.e., for over 10 decades. It no longer serves as a deterrent. It is pertinent to note that in the neighbouring State of Kerala the penalty leviable is far higher (maximum of ₹ 200 is leviable in cases of encroachment and if the contravention continues, penalty of ₹ 200 is leviable for every day of such contravention). This has been in vogue since 1957.

The Government while replying (August 2003) to the audit observations included in the Audit Report for the year 2002-03, stated that repeal of the old Act (1905) and re-enactment of a new Act with necessary provisions like levy of higher rate of penalty, punishment for land grabbing, simplifying the procedure for eviction, etc., was under their consideration. However, even after eight years of their reply, the Act has not been amended so far.

3.5.12.1 Encroachment by individuals and commercial organisations

We observed from test check of the account number seven and *adangal*[29] meant for accounting the Government *poromboke* (waste) lands, in 24 taluks, that in 39 cases, 6,712.53 acres of Government lands valuing ₹ 178.65 crore were under encroachment for more than five years, for commercial/industrial purposes, as detailed in **Annexure VI**.

A few illustrative cases are given in the following paragraphs:

- We observed during test check of account number seven and *adangal* records in the office of the Tahsildar (LR), Uthamapalayam that land measuring 9,894.62 acres was given to a company under conditional assignment in 1931 for cultivation of tea, coffee and cardamom. The Authorised Officer (Land Reforms), Coimbatore in his proceedings in 1979 identified the above land under various categories like non-agricultural lands, plantation lands, etc and determined 6,389.42 acres of this land as surplus as the land was not used for the purposes of assignment and converted the said lands as "*kadu poromboke*[30]" and necessary changes were also made in the village records. However, the original assignee was allowed to occupy the land since 1979 to date. The cost of the land encroached worked out to ₹ 143.76 crore (as on 30 June 2010 as per the guideline value).

- We observed during test check of account number seven and adangal records in the office of the Tahsildar (LR), Perundurai that land measuring 10,900 sq.ft. in Chennimalai village was encroached by a person for more than 15 years and is operating a petrol retail outlet in the encroached land. The cost of the land encroached worked out to ₹ 12.35 lakh (as on 30 June 2010).

3.5.12.2 Encroachment by educational institutions

We observed during scrutiny of account number seven and *adangal* meant for Government poramboke (waste) lands in 10 taluks, that in 16 cases, 60.01 acres of the Government lands valuing ₹ 11.24 crore were under encroachment

[29] Account number seven is a register in which details of encroachments are entered and Adangal is a book containing the accounts of a whole village.

[30] Kadu Poromboke means Government waste lands.

for more than five years by educational institutions as detailed in **Annexure VII**.

A few illustrative cases are given in the following paragraphs:

➢ We observed during test check of account number seven and adangal records of the Tahsildar (LR), Salem that land measuring 26.01 acres was encroached by an educational and charitable trust from 1997. The encroacher agreed for grant of lease at nominal lease rent in October 2009. The lease proposal was forwarded by the District Collector to the Government in November 2009 proposing the lease rent at ₹ 30.59 lakh per annum. However, the same has not been finalised and the land is still under the occupation of the encroacher without any income to the Government. The cost of the land worked out to ₹ 4.37 crore (value as on 30 June 2010).

➢ We observed during test check of account number seven and adangal records of the Tahsildar (LR), Tiruchengodu that land measuring 2.32 acres in Kumarapalayam Amani village was encroached by a person for the purpose of running an engineering college, from 1991 onwards and the encroacher had built permanent structures and overhead tank on the said land. The cost of the land worked out to ₹ 1.11 crore (value as on 30 June 2010).

Failure of the Department to evict the encroachers or dispose of the cases resulted in lands to the value of ₹ 189.89 crore (value as on 30 June 2010) being occupied by encroachers without any income to the Government.

3.5.12.3 Encroachment of water courses

The Government of Tamil Nadu in GO.Ms.No.186, Revenue L.D.1 (2) Department dated 29 April 2003 issued instructions to the District Collectors/District Revenue Officers for the preservation of water resources in the State and for eviction of encroachments in ponds, lakes, tanks, channels, etc., and protect these water bodies with a view to conserve water resources required for irrigation and for maintaining ground water levels.

The Honourable High Court Chennai in WP No.20186/2000 dated 27 June 2005 had emphasised the need for the State Government to protect the water course *poromboke*[31] lands by identifying all natural water resources in different parts of the State and wherever illegal encroachments were found, to initiate appropriate steps for restoring such natural water storage resources to their original position so that the suffering of the people of the State due to water shortage is ameliorated.

We observed from test check of the account number seven and adangal meant for Government *poromboke* lands in 49 taluks relating to 18 districts[32], that 7,065 acres of land meant for water courses were encroached upon in 19,369

[31] Government waste land.

[32] Coimbatore, Erode, Kanchipuram, Karur, Nagapattinam, Namakkal, Nilgiris, Ramanathapuram, Salem, Thanjavur, Theni, Thoothukudi, Tirunelveli, Tiruppur, Tiruvallur, Tiruvannamalai, Trichy and Vellore.

cases. The land was under encroachment for more than five years and the cost of the said land as on 30 June 2010 amounted to ₹ 901.76 crore as detailed in **Annexure VIII**.

Despite the instructions of the Revenue Department, the eviction of encroachments in water courses has not been carried out resulting in continuous blocking of water courses.

3.5.12.4 Encroachment of Government lands noted in Prohibitive Order Book

According to RSO 15-2(2), a land is said to be "reserved" when it is earmarked as being required or likely to be required for special purposes. An entry to this effect is to be made in the "A" register[33] and village adangal, and also in the Prohibitive Order Book (POB). Such lands are:

a) land that may be required for a scheme evolved or to be evolved,

b) land adjacent to the school, road, railway station etc., and which is likely to be required for future expansion,

c) land containing major minerals,

d) land containing archaeological monuments and

e) land, disposal of which may lead to law and order problem.

In such cases, the Department/Government may prohibit the disposal or use of the land in any form by any one. The lands identified and earmarked for future special purpose of Government should not be allowed to be encroached.

We observed from the POB register and *adangal* of nine districts[34] that in 1,116 cases, 685.70 acres of Government lands noted in the 'Prohibitive Order Book' were encroached by various institutions/bodies/individuals. The cost of the land as on 30 June 2010 worked out to ₹ 129.12 crore.

As these encroachments were objectionable, they should have been evicted. However, no action was initiated to evict the encroachers.

In view of the extensive nature of encroachments of Government lands in the State, we recommend that the penalty be substantially increased. Action also needs to be taken to evict encroachments on priority basis along with strong action to act as a deterrent to encroachments.

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[33] 'A' Register contains information on all lands about its classification, assessment, etc. of a village

[34] Coimbatore, Kanchipuram, Madurai, Nilgiris, Salem, Theni, Thoothukudi, Tirunelveli and Trichy.

3.5.13 Non-resumption of lands under Bhoodan Act

According to Section 19 of the Tamil Nadu Bhoodan Yagna Act, 1958 (Tamil Nadu Act XV 1958), the State Bhoodan Board may, in the manner prescribed, and as far as possible taking into consideration the wishes of the donor, grant any land which is vested in it to a landless poor person who is able and willing to cultivate the land or to the Government or a local authority for community purposes. The grantee of the land shall acquire therein such rights and liabilities and subject to such condition, restrictions and limitations as may be prescribed, and the same shall have effect, any other law to the contrary notwithstanding.

According to Rule 15 (2) of the Tamil Nadu Bhoodan Yagna Rules, 1959, the grant may be cancelled and the land resumed by the State Board for violation of any conditions specified in Rule 15 (1) of the rules *ibid* without payment of any compensation and on resumption the land shall revest in the State Board and the State Board may re-grant it to any other eligible person.

We observed that 28,060.41 acres of land were gifted to the Tamil Nadu Bhoodan Board, out of which 20,485.35 acres of land were allotted to landless poor persons in the State. The remaining 7,575.06 acres of land is with the Board and is yet to be distributed to landless poor persons as on December 2011 as reported by the Director of Land Reforms.

However, it was observed from the Bhoodan land allotment records in 12 taluks[35] that in 66 cases 88.64 acres of land allotted to landless poor people between 1956 and 1984 were occupied by other persons for more than 10 years. The cost of the land, as on 30 June 2010, was ₹ 7.56 crore.

These lands should have been taken back by the Government and re-allotted to the same or other eligible persons with reference to the provisions contained in the Act. However, this has not been done so far.

After we pointed this out, the Commissioner of Land Reforms stated (June 2011) that instructions have been issued to make necessary enquiry, inspect the lands in question and to take action to evict the unauthorised occupation. Further the District Collectors have also been requested to send the list of eligible persons for re-allotment of such Bhoodan land. We are awaiting further report (December 2011).

[35] Aravakurichi, Coimbatore (North), Cuddalore, Manapparai, Mettur, Omalur, Perundurai, Ramanathapuram, Salem, Sriperumbudur, Sulur and Tiruchendur.

3.5.14 Other points of interest

3.5.14.1 Non-resumption of Government land for violation of condition

According to RSO No. 24, Government lands may be placed at the disposal of a person, or an institution or a local body. If any condition imposed by the Government in respect of such grant are violated, the Government may resume such lands without any compensation.

As per RSO 24(7A) the Collectors will ensure that the subordinate officers inspect annually the lands placed at the disposal of the institutions to find out whether the conditions of the grant have been properly implemented and pursue further action, where violations are noticed.

(i) Government land measuring 30,928 sq.ft. was granted (13 September 1973) on conditional assignment in favour of a person in Tiruchengode taluk for setting up a dairy farm. We observed from the records of the Taluk Office, Tiruchengodu, that the said land was noted as having violated the assignment conditions in the year 2005, itself. We cross verified from the documents in the office of the Sub-Registrar, Tiruchengode that the assigned land was converted into house sites and sold to 12 persons between 2001 and 2010. The value of the land worked out to ₹ 6.14 crore.

After we pointed this out, the CLA replied (December 2011) that only 6,500 sq.ft. of the land has been sold out of the total area of 30,928 sq.ft. Further, the CLA stated that the DRO, Namakkal forwarded only a factual report in this regard and not a resumption proposal. Though the land was noted as having violated the assignment condition in 2005, the Department had not taken action to resume the land even though more than five years have elapsed.

(ii) Government land measuring 40,793 sq.ft. was granted on lease in favour of a Sabha in Thanjavur taluk in 1926 for a period of 99 years for Sabha activities. Though it was Government land, the Municipal Council in November 1973 resolved to cancel the lease and to resume the land for violation of lease conditions. Against this, the Sabha had filed a suit in 1974. The Hon'ble Subordinate Judge, Thanjavur in his judgment dated 31 March 1975, restrained the Municipality from interfering in the leased land. Thereafter, the Municipality filed a suit in the District Munsiff Court in 1976 for recovery of possession of the leased land. The suit was dismissed on 6 April 1978 and in the judgment it was pointed out that "the suit was not maintainable since the lease was granted by the District Collector of Thanjavur and the Municipality was not the owner of the suit site. The Government in August 2005, directed the District Collector/Thanjavur District to collect the lease arrears of ₹ 46.46 lakh from the lessee and also resume the land after observing the procedures for violation of lease conditions.

We, however, observed that even after five years after the issuance of the Government order, no action was taken to resume the land worth ₹ 8.16 crore and also to collect the lease rent arrears of ₹ 46.46 lakh.

After we pointed this out, the Government replied (July 2011) that the Collector, Thanjavur has given instructions to the Municipal Commissioner, Thanjavur to take appropriate action to collect the lease rent arrears and evict the lessee from the land. Further, the CLA replied in December 2011 that the District Collector, Thanjavur has been requested to send a report in this regard. We are awaiting further report (December 2011).

3.5.14.2 Non/short levy of interest for belated payment of land cost

According to RSO 24-6 (11), when land is placed at the disposal of the institution on payment of the cost of the land, the said cost should be paid within a period of 30 days from the date of issue of orders. In case of failure, interest at prevailing rates will have to be paid by the beneficiary, till the cost of the land is fully paid.

(i) We observed in Arakkonam taluk that cost of the land alienated (04 December 2007) to CISF in Arakkonam taluk was fixed at ₹ 1.71 crore. After adjusting an amount of ₹ 93.07 lakh already paid by the CISF, an amount of ₹ 77.57 lakh was demanded on 26 December 2007. The CISF remitted the amount on 31 October 2008 after a lapse of 10 months. Though interest of ₹ 7.76 lakh at 12 *per cent* per annum for the belated payment was leviable, an amount of ₹ 0.93 lakh only was levied due to clerical error. This resulted in short levy of interest of ₹ 6.83 lakh.

(ii) We also observed in three taluks[36] that the cost of land alienated to M/s ELCOT was fixed at ₹ 32.38 crore. Though the Government allowed M/s ELCOT to pay the land cost in four equal instalments on specified dates after excluding five *per cent* of initial payment of the cost, M/s. ELCOT paid the land cost belatedly attracting interest of ₹ 1.12 crore, which was also not levied.

3.5.14.3 Non-recovery of cost towards survey staff

According to the instructions issued by the Government in 1989 and Survey manual, the cost of establishment charges incurred on the officials lent to Corporation/ Municipalities/Panchayats has to be worked out by the Department of Survey and Settlement at the end of each year and the same should be recovered from the borrowing institutions.

On verification of records in the office of the Director of Survey and Land Records, Chennai, it was noticed that the demand for the payment of cost of survey staff lent to local bodies, for the period upto *fasli* 1419 (30.06.2010) was ₹ 53.29 crore. Out of this ₹ 11.68 crore was collected

[36] Madurai (North), Madurai (South) and Tiruverumbur.

by the Department, leaving a balance of ₹ 41.61 crore uncollected, as detailed in the following table:

(₹ in crore)

Local Body	Demand	Collection	Balance
Municipalities	38.44	7.10	31.34
Corporations	8.81	3.22	5.59
Panchayat Unions	6.04	1.36	4.68
Total	**53.29**	**11.68**	**41.61**

Further demand of ₹ 60.43 lakh has been raised for the year 2009-10 in respect of a Corporation, 35 Municipalities and 12 Panchayat Unions out of seven Corporations, 99 Municipalities and 93 Panchayat Unions respectively.

After we pointed this out, the Department replied (between December 2010 and March 2011) that the demand for the year 2009-10 was not raised for the remaining local bodies due to implementation of sixth pay commission report.

Had timely action been taken to raise the demand for the remaining local bodies, the Government would have realised revenue of ₹ 7.37 crore for 2009-10 alone.

3.5.14.4 Non-linking of records of Revenue and Registration Departments

According to RSO No. 31 (9), in every case of absolute transfer of landed property by a deed of conveyance, or of transfer of possession by any other kind of instrument, registered in an office of Registration of assurances, it is the duty of the registering officer to obtain from the party presenting the instrument an application in the required form for the transfer of ownership in the revenue records. All applications presented to registering officers and notices prepared by them shall be transmitted to the Tahsildar of the taluk concerned in which the property is situated, who will take action on them as if they had been received by revenue officers directly.

The registering officer collects ₹ 60 per application, if the property is situated in corporation area and ₹ 40 per application if it is in other than corporation area towards transfer of ownership to be carried out by the Revenue Department.

However, we observed in 18 districts[37], that out of 11.32 lakh *patta* transfer applications received from various sub registries during the period from 2005-06 to 2009-10 *patta* transfers were made only in respect of 6.30 lakh cases, leaving 5.02 lakh cases as rejected.

[37] Coimbatore, Cuddalore, Erode, Kanyakumari, Madurai, Nagapattinam, Namakkal, Ramanathapuram, Salem, Thanjavur, Theni, Thoothukudi, Tirunelveli, Tiruppur, Tiruvallur, Tiruvannamalai, Trichy and Vellore.

The main reason stated for the rejection was the non receipt of proper documents. However, the same was not reported to the Registration Department for getting the relevant documents. This shows that the existing system of collecting *patta* transfer applications at the time of registration had not served the purpose for which the amount was paid by the public.

It is pertinent to mention that the issue was earlier reported in Audit Report 2007-08 (Paragraph 4.2.4.3) regarding inter-connectivity between the taluk offices and SR offices (computer connectivity). However, it is seen that there is still no computer connectivity between the Revenue and Registration Departments (collecting agency).

3.5.15 Conclusion

The performance audit revealed that Government did not have a database of its own premium asset i.e. land. The Department did not follow the orders of the Government for renewal/collection of lease rent. The Government lands were not alienated even after grant of enter upon permission resulting in blocking of Government revenue in the shape of land cost. Where violation of conditions were noticed in the cases of lands allotted under *bhoodan* scheme, no action was taken to resume/reallot the lands. No action was taken to evict the objectionable encroachments.

3.5.16 Recommendations

The Government may consider the following:

- **instruct the Department to maintain a complete and updated database at CLA level of the actual Government land available, the extent thereof alienated or leased out or encroached upon and pendency of lease/alienation/encroachment cases;**
- **a time frame may be devised for renewal/revision of lease rent;**
- **a fixed time limit may be prescribed to alienate the Government lands after grant of enter upon permission;**
- **stringent penal provisions may be introduced to discourage the encroachment of Government lands;**
- **a suitable mechanism may be evolved to watch violation of conditions on allotment of Bhoodan lands and also to take timely action to resume the land in case of violation; and**
- **implementing the scheme of inter linking (computer connectivity) the taluk offices with the Sub-Registrar offices for updating of transactions in revenue records.**

CHAPTER IV

STAMP DUTY AND REGISTRATION FEES

Executive Summary

Increase in tax collection	In 2010-11 the collection of revenue from stamp duty and registration fees increased by 27 *per cent* over the previous year which was attributed by the Department to increase in sale of non-judicial stamps and increase in registration of documents.
Arrears of revenue	Out of the arrears of ₹ 213.92 crore pending as on 31 March 2011, ₹ 210.11 crore, i.e. 98 *per cent* were covered under the Revenue Recovery Act.
Cost of collection	In all the three years from 2008-09 to 2010-11, the expenditure incurred on collection was more than the all India average cost of collection in the previous years.
Internal audit	There was short fall in the conduct of internal audit in the past few years due to shortage of staff in the internal audit wing. This resultantly had its impact in terms of the weak internal controls in the Department. It also led to the omissions on the part of the registering officers till we conducted our audit.
Results of audit conducted by us in 2010-11	In 2010-11 we test checked the records of 199 units and found undervaluation of duty and other irregularities amounting to ₹ 120.01 crore in 735 cases. The Department accepted under assessments and other deficiencies amounting to ₹ 2.95 crore in 119 cases, out of which, ₹ 1.85 crore involved in seven cases were pointed out during 2010-11 and the rest in earlier years. Out of the above, an amount of ₹ 1.21 crore has been collected.
What we have highlighted in this Chapter	In this chapter we present illustrative audit observations of ₹ 3.48 crore selected from observations like misclassification of instruments, undervaluation of properties, etc. noticed during our test check of records in the registration offices, where we found that the provisions of the Act/Rules were not observed. It is pertinent to mention that though similar omissions have been pointed out by us in earlier years, the Department had not taken corrective action despite these mistakes were apparent from the records made available to us.
Our conclusion	The omissions/mistakes detected by us can be detected in the internal audit. Thus the Department may strengthen the internal audit. As of now the coverage in internal audit is not adequate. It also needs to initiate action to recover the non/short levies and under valuations pointed out by us. The cost of collection in the State is higher than the all India average cost of collection and thus the Department needs to take action to reduce the cost of collection.

CHAPTER IV
STAMP DUTY AND REGISTRATION FEES

4.1 Tax administration

The Registration Department administers the Indian Stamp Act, 1899 and the Registration Act, 1908 and the Rules made thereunder. The administration of the Department is vested with the Inspector General of Registration. There are 50 registration districts comprising 568 registration offices in the State. The levy and collection of stamp duty and registration fees are done by the registering authorities. The monitoring and control at the Government level is done by the Secretary, Commercial Taxes and Registration Department.

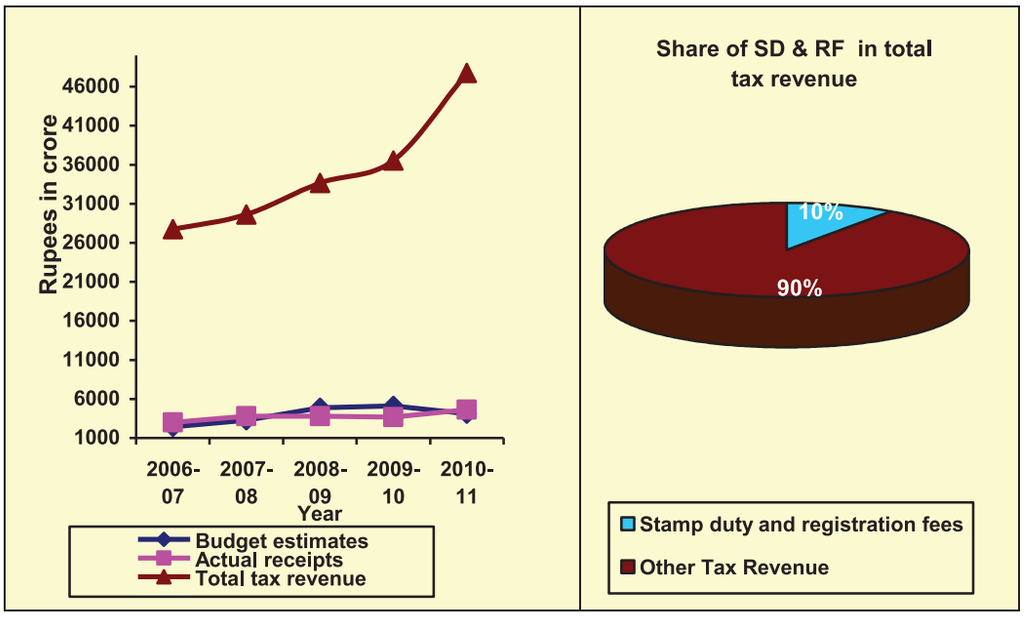
4.2 Trend of receipts

Actual receipts from stamp duty and registration fees during the last five years from 2006-07 to 2010-11 along with the total tax receipts during the same period are exhibited in the following table:

(₹ in crore)

Year	Budget estimates	Actuals	Variation excess (+)/ short fall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts *vis-à-vis* total tax receipts
2006-07	2,451.65	2,997.46	(+) 545.81	(+) 22	27,771.15	11
2007-08	3,258.88	3,804.74	(+) 545.86	(+) 17	29,619.10	13
2008-09	4,888.90	3,793.68	(-) 1,095.22	(-) 22	33,684.37	11
2009-10	5,093.99	3,662.16	(-) 1,431.83	(-) 28	36,546.66	10
2010-11	4,096.18	4,650.59	(+) 554.41	(+) 14	47,782.17	10

A line graph of budget estimates, actual receipts and total receipts and a pie chart depicting the position of stamp duty and registration fees receipts in the total tax receipts are given in the following page:



In 2010-11 the collection of revenue from stamp duty and registration fees increased by 27 *per cent* over the previous year which was attributed by the Department to increase in sale of non-judicial stamps and increase in registration of documents.

4.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 along with the figures for the preceding four years as furnished by the Department are given in the following table:

(₹ in crore)

Year	Opening balance	Addition	Total	Amount collected during the year	Closing balance
2006-07	174.64	107.31	281.95	121.60	160.35
2007-08	160.35	17.99	178.34	29.53	148.81
2008-09	148.81	29.93	178.74	30.86	147.88
2009-10	147.88	65.37	213.25	15.75	197.50
2010-11	197.50	37.15	234.65	20.73	213.92

The arrears as on 31 March 2011 includes ₹ 160.35 crore outstanding for more than five years. Demands amounting to ₹ 210.11 crore were covered under the Revenue Recovery Act. Demands of ₹ 3.81 crore were stayed by the High Court and other judicial authorities.

The above details indicate that substantial amounts were covered under the Revenue Recovery Act and on account of stays granted by the judicial/ appellate fora.

We recommend that special efforts be made to vacate the stay orders and to speed up the cases involved in litigation. We further recommend that the Government may consider fixing targets for collection of old arrears

in a time bound manner and closely monitor the performance of the Departmental officers *vis-à-vis* the set targets.

4.4 Cost of collection

The gross collection in respect of stamp duty and registration fees, expenditure incurred on collection and percentage of such expenditure to gross collection during the years 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for the previous years are given in the following table:

(₹ in crore)

Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the previous years
2008-09	3,793.68	133.20	3.51	2.58
2009-10	3,662.16	162.10	4.43	2.77
2010-11	4,650.59	177.06	3.81	2.47

The above table indicates that the percentage of expenditure on collection was more than the all India average in all the years.

The Government needs to take appropriate measures to bring down the cost of collection.

4.5 Impact of Audit Reports

4.5.1 Revenue impact

During the last five years, we had pointed out through our Audit Reports under valuation of properties, misclassification of instruments and other irregularities, with revenue implication of ₹ 229.44 crore in 27 paragraphs. Of these, the Department/Government had accepted audit observations involving ₹ 33.71 crore and had since recovered ₹ 9.68 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Accepted money value	Amount recovered
	Number	Money value		
2005-06	3	76.66	1.57	1.26
2006-07	3	8.58	8.58	1.00
2007-08	12	42.63	19.72	6.95
2008-09	8	10.73	3.38	0.01
2009-10*	1	90.84	0.46	0.46
Total	**27**	**229.44**	**33.71**	**9.68**
*** Stand alone report on Registration Department.**				

The Government may institute a mechanism to monitor the position of recoveries pointed out in the Audit Reports and take necessary steps for early collection.

4.6 Working of internal audit wing

The details of the number of offices due for internal audit and those completed, as furnished by the Department are given in the following table:

Year	Number of offices due	Number of offices completed	Balance	Percentage of col.3 to 2
1	2	3	4	5
2006-07	726	726	----	100
2007-08	832	832	----	100
2008-09	881	859	22	97.50
2009-10	1,005	879	126	87.46
2010-11	991	563	428	56.81

The Department attributed the reasons for shortfall in conducting internal audit to vacancy in staff strength and stated that special audit for cases handled by officials who were retiring and in respect of cases which would become time barred were only being conducted by engaging other registering officers. It was further stated that the vacancies have since been filled up and the arrears would be minimised in future.

4.7 Results of Audit

We test checked the records of 199 Departmental offices during the period from April 2010 to March 2011 and found undervaluation of properties, misclassification of instruments and other irregularities amounting to ₹ 120.01 crore in 735 cases, which broadly fall under the following categories.

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1	Undervaluation of properties	199	48.06
2	Misclassification of instruments	428	67.02
3	Other observations	108	4.93
	Total	**735**	**120.01**

During the course of the year 2010-11, the Department accepted under assessments and other deficiencies amounting to ₹ 2.95 crore in 119 cases, out of which ₹ 1.85 crore involved in seven cases were pointed out during the year and the rest in earlier years. Out of the above, an amount of ₹ 1.21 crore has been collected.

A few illustrative cases involving ₹ 3.48 crore are mentioned in the following paragraphs:

4.8 Audit observations

We test checked the records in the offices of the Registration Department relating to revenue received from stamp duty and registration fee and noticed several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of duty, fees and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and based on test checks carried out by us. Although such omissions are pointed out every year, the irregularities persist and remain undetected till the next audit is conducted. There is need for the Government to consider directing the Department to improve the internal control systems including strengthening of internal audit so that such omissions can be avoided, detected and corrected.

4.9 Non-compliance of the provisions of the Acts/Rules

The provisions of the Indian Stamp Act, 1899, Indian Registration Act, 1908 and Rules made thereunder require payment of stamp duty and registration fee at the time of executing and registering the documents viz., conveyance deed, lease deed, mortgage deed etc., as per the rates prescribed in the schedule to the Act.

We noticed non-compliance of the provisions of the Act/Rules in some cases as mentioned in paragraphs 4.9.1 to 4.9.5 which resulted in non/short realisation of ₹3.48 crore.

4.9.1 Misclassification of instruments

As per Article 17 of Schedule-I to the Indian Stamp Act, 1899 on an instrument of cancellation, if attested and not otherwise provided for, stamp duty is leviable at ₹ 50. As per Article 23, on an instrument of conveyance, stamp duty at eight *per cent,* is leviable on the market value of the property. In addition, registration fee at one *per cent* is also leviable.

It was judicially held[38] that there can be no such thing as cancellation of a conveyance under which right to a property has already been passed. Property can be retransferred only by a conveyance. Further, it was also held[39] by the Hon'ble Madras High Court that once the title to the property is vested in the transferee by sale of the property, it cannot be divested unto the transferor by execution and registration of a deed of cancellation even with the consent of the parties. The proper course would be to reconvey the property by a deed of conveyance by the transferee in favour of the transferor.

[38] cf Emperor Vs Rameshardoss 32 All 171 SIC 697 Ref Page 514 of an Executive Commentary on the Indian Stamp Act, 1899 by K. Krishnamurthy – Seventh Edition 1997

[39] Latif Estate Line India Ltd., Vs.The Sub Registrar, Ambattur (WA No.592 of 2009)

We observed during test check of the documents in Sub Registry, Sriperumbudur (April 2009) and Joint-II Sub Registry, Coimbatore (July 2010) that six sale deeds executed and registered between October 2006 and November 2007 were cancelled between May 2007 and June 2009. Though conveyance was made by receiving full consideration and handing over the possession of the properties as per the original sale deeds, the cancellation deeds were executed stating that the possession of the properties was not handed over to the buyers in five cases and without any reason in one case. Further, the properties were conveyed subsequently to other buyers for a total consideration of ₹ 1.85 crore.

Since, through the cancellation deeds, the right and interest over the properties were re-acquired by the original vendors, the same were to be treated as conveyance deeds. Accordingly, stamp duty and registration fees to the tune of ₹ 16.60 lakh was leviable on the market value of the properties i.e., ₹ 1.85 crore, set forth in the subsequent sale deeds.

After we pointed this out to the Department (August 2010) and to the Government (May 2011), the Government replied (October 2011) that Article 17 provides for cancellation and also quoted a judicial decision that there can be no such thing as cancellation of a conveyance under which right of property has already been passed and property can be retransferred only by a reconveyance. There are no recitals in the instruments about retransfer of the properties.

The reply is not acceptable as cancellation of conveyance deed was not correct as the conveyance was completed by receipt of value of the property and handing over the possession as is evidenced from the documents registered. The route of cancellation deed was adopted to avoid the payment of stamp duty only and the concerned SR did not follow the court judgment and codal provisions at the time of registration of cancellation deeds. Further, retransfer was done as the properties were resold subsequent to the registration of the cancellation deeds. We are awaiting further report (December 2011).

We reported the matter to the Government in May 2011 and are awaiting their reply (December 2011).

4.9.2 Incorrect exemption to societies

According to the second proviso of the notification dated 29 June, 1966, issued under the Co-Operative Societies Act, remission of stamp duty chargeable under the Indian Stamp Act is admissible in respect of instruments executed by a member of a registered co- operative society, provided that the executant was a member of such society continuously for a period of not less than two years.

We observed during test check of the documents in the offices of the Joint-II Sub Registry, Chingleput and Sub Registry, Perianaickan-palayam (November/ December 2010), that through 23 conveyance deeds registered between April 2009 and March 2010, 3.49 lakh sq.ft of developed house sites was conveyed in favour of two co-operative housing societies by persons who became members of the societies in the years 2008 and 2009. These two societies were exempted from the payment of stamp duty of ₹ 1.49 crore leviable on the market value of ₹ 18.61 crore set forth in the documents. As the period of membership of the vendors was less than two years as on the date of execution of documents, the above sale deeds executed in favour of the co-operative societies were not eligible for remission of stamp duty. This resulted in non-realisation of stamp duty of ₹ 1.49 crore.

After we pointed this out to the Department in December 2010 and to the Government in February/March 2011, the Government replied (October 2011) that the period of two years was applicable only in the case of a co-operative house construction society. Since the society in the instant case was a co-operative housing society, the condition of two years would not be applicable. The reply of the Department is not tenable since the second proviso of the notification clearly indicates that exemption is admissible to those members who are in continuous membership of two years or more and is applicable to all the registered societies and not to the house construction societies alone. We await further report (December 2011).

4.9.3 Incorrect exemption from levy of stamp duty

According to Article 35(c) of the Indian Stamp Act, when the period of lease is thirty years and above and upto ninety nine years, stamp duty is leviable at four *per cent* of the amount of premium paid and the registration fees payable is ₹ 5,000.

The Government of Tamil Nadu in G.O. Ms.No.96 dated 20 May 2004 ordered that all industrial units and their expansions to be located in the Special Economic Zones (SEZ) are exempted from payment of stamp duty and registration fees towards land transactions.

We observed during test check of the documents in the office of the Joint-II Sub-Registry, Chingleput during November 2010 that 128.95 acres of land situated in two villages[40] was leased out by a developer to a software company for a period of 94 years in July 2009. The lease deed was registered (July 2009) on receiving a non-refundable premium of ₹ 16.12 crore. The deed was exempted from payment of stamp duty and registration fees considering that the entire land was situated in the SEZ notified by the Government of India. However, on scrutiny of the lease deed and the relevant notifications of the Government of India, we noticed that land measuring 16.67 acres in various survey numbers out of 128.95 acres leased, was not declared as SEZ though they were situated in the aforementioned villages. Therefore, the exemption granted for the land not situated in the SEZ was not in order and stamp duty and registration fees had to be levied on ₹ 2.08 crore being the proportionate amount of non-refundable premium paid. The incorrect exemption resulted in non-levy of stamp duty and registration fees of ₹ 8.39 lakh.

After we pointed this out in December 2010, the Department stated that notice would be issued to the parties to collect the deficit amount and the result intimated to audit.

We reported the matter to the Government (March 2011) and are awaiting their reply (December 2011).

[40] Thenmelpakkam and Veerapuram.

4.9.4 Short levy of stamp duty on lease deeds

According to Article 35(a) of the Schedule-I to the Indian Stamp Act 1899, as applicable in the State of Tamil Nadu, the stamp duty payable on an instrument of lease where the period is below thirty years is one *per cent* on the amount of rent, fine, premium or advance, if any, payable.

We observed during test check of the documents in Sub Registry, Thiruthuraipoondy (March 2010), that through two lease deeds, lands measuring 33,136 sq.ft and 43,600 sq.ft with buildings were leased out on a monthly rent of ₹ 2 per sq.ft and ₹ 0.50 per sq.ft for 25 and 29 years respectively and the lease rent would be increased by 10 *per cent* each year. Our scrutiny of documents indicated that stamp duty was levied on advance of ₹ 3 lakh and rent for the period of lease alone without considering the enhancement of rent at the rate of 10 *per cent* per year over the rent of the previous year. Thus, the correct stamp duty leviable, taking into account the enhancement of lease rent, works out to ₹ 11.74 lakh as against ₹ 2.79 lakh collected. This resulted in short levy of stamp duty of ₹ 8.95 lakh.

After we pointed this out (March 2010), the registering authority agreed (March 2010) to collect the amount. We await further reply (December 2011).

We reported the matter to the Government (May 2011) and are awaiting their reply (December 2011).

4.9.5 Excess allocation of transfer duty surcharge

According to Section 94 of the Tamil Nadu Urban Local Bodies Act, 1998 and Section 175 of the Tamil Nadu Panchayat Act, 1994, duty shall be levied on the following classes of transfer of immovable property in the form of surcharge on the duty imposed under the Indian Stamp Act, 1899 viz., sale, exchange, gift, mortgage with possession and lease in perpetuity. It shall be levied and collected at the rate of two *per cent* on the market value of the property transferred and subsequently allocated to the concerned local bodies.

We observed during test check of the surcharge register and monthly periodicals in District Registry (Madurai South) and five Sub Registries[41] between May 2010 and March 2011, that though a sum of ₹ 35.46 lakh only was collected towards transfer duty surcharge, ₹ 2.01 crore was allocated to local bodies either due to incorrect entries in the transfer duty surcharge register or because allocation was made in respect of ineligible documents[42]. This resulted in excess allocation of ₹ 1.65 crore to local bodies out of the revenue due to Government.

After we pointed this out (between May 2010 and March 2011), the registering authorities (Madurai-South and Arakandanallur) replied (March/April 2011) that a sum of ₹ 23.59 lakh has been adjusted. We await further report in respect of other cases (December 2011).

We reported the matter to the Government in February and March 2011 and are awaiting their reply (December 2011).

41 SR, Adyar, Alandur, Aragandanallur, Avarapakkam and Jt II SR Tiruppur.

42 The documents namely "release, settlement, mortgage, and deposit of title deeds" are not eligible for transfer duty surcharge.

CHAPTER V

TAXES ON VEHICLES

Executive Summary

Increase in tax collection	In 2010-11 the collection of revenue from taxes on vehicles increased by 31 *per cent* over the previous year which was attributed by the Department to enhancement of life time tax.
Internal audit	Internal audit is being conducted periodically in all the zones in the State.
Results of audit conducted by us in 2010-11	In 2010-11 we test checked the records of 30 units and found underassessment of tax, fees and other observations amounting to ₹ 9.49 crore in 95 cases. The Department accepted underassessments and other deficiencies amounting to ₹ 1.32 crore in 100 cases and collected the amount, out of which, ₹ 5.35 lakh involved in 15 cases were pointed out during 2010-11 and the rest in earlier years
What we have highlighted in this Chapter	In this chapter we present a performance audit on **"Computerisation of Transport Department"** containing certain system/compliance deficiencies involving money value of ₹ 1.69 crore noticed during our test check of records in the Regional Transport Offices. It is pertinent to mention that though similar omissions have been pointed out by us in 2006-07, the Department had not taken corrective action.
Our conclusion	The Department needs to improve the internal audit so that the omissions of the nature detected by us are avoided in future.

CHAPTER V
TAXES ON VEHICLES

5.1 Tax administration

The Transport Department of the Government of Tamil Nadu administers the provisions of the Motor Vehicles Act, 1988, Central Motor Vehicles Rules, 1989, Tamil Nadu Motor Vehicles Rules, 1989 and Tamil Nadu Motor Vehicles Taxation Act and Rules, 1974.

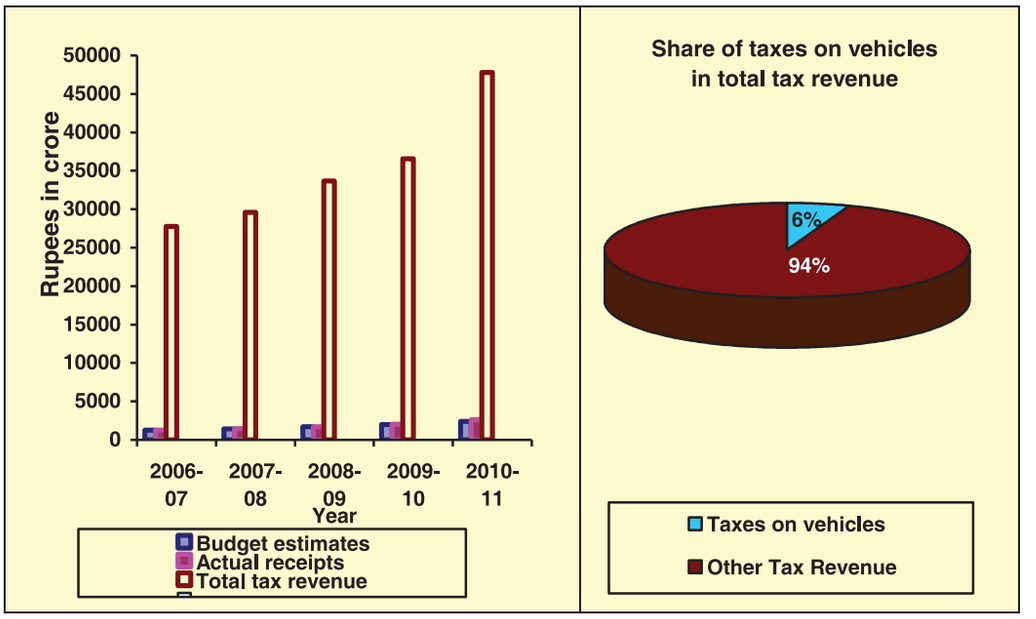
5.2 Trend of receipts

Actual receipts from taxes on vehicles during the last five years from 2006-07 to 2010-11 along with the total tax receipts during the same period are exhibited in the following table:

(₹ in crore)

Year	Budget estimates	Actuals	Variation excess (+)/ short fall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts *vis-à-vis* total tax receipts
2006-07	1,248.28	1,260.88	(+) 12.60	(+) 1.01	27,771.15	4.54
2007-08	1,410.22	1,483.21	(+) 72.99	(+) 5.18	29,619.10	5.01
2008-09	1,707.60	1,709.57	(+) 1.97	(+) 0.12	33,684.37	5.08
2009-10	1,994.38	2,024.64	(+) 30.26	(+) 1.52	36,546.66	5.54
2010-11	2,396.42	2,660.05	(+) 263.63	(+) 11.00	47,782.17	5.57

A bar diagram depicting budget estimates, actual receipts and total receipts and a pie chart depicting the position of taxes on vehicles receipts in the total tax receipts are given in the following page:



In 2010-11 the collection of revenue from taxes on vehicles increased by 31 *per cent* over the previous year which was attributed by the Department to enhancement of life time tax.

5.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 along with the figures for the preceding four years as furnished by the Department are mentioned below:

(₹ in lakh)

Year	Opening balance	Addition	Total	Amount collected during the year	Closing balance
2006-07	174.62	565.76	740.38	548.76	191.62
2007-08	191.62	577.77	769.39	764.64	4.75
2008-09	4.75	657.53	662.28	582.13	80.15
2009-10	80.15	728.37	808.52	717.97	90.55
2010-11	90.55	2,636.71	2,727.26	2,521.36	205.90

The arrears as on 31 March 2011 includes ₹ 1.92 crore outstanding for more than five years. Demands of ₹ 42.64 lakh were covered under the Revenue Recovery Act. Demands of ₹ 10.50 lakh were stayed by the High Court and other judicial authorities. A sum of ₹ 77.76 lakh is likely to be written off while ₹ 54.99 lakh was under various stages of collection. An amount of ₹ 20.01 lakh has since been collected.

5.4 Cost of collection

The gross collection in respect of taxes on vehicles, expenditure incurred on collection and percentage of such expenditure to gross collection during the years 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for previous years are given in the following table:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the previous years
Taxes on vehicles	2008-09	1,709.57	47.56	2.78	2.09
	2009-10	2,024.64	77.30	3.81	2.93
	2010-11	2,660.05	67.64	2.54	3.07

The above table indicates that while the percentage of expenditure on collection was more in 2008-09 and 2009-10, it fell below the all India average percentage in the year 2010-11.

5.5 Impact of Audit Reports

5.5.1 Revenue impact

During the last five years, we had pointed out through our Audit Reports under assessment of tax, fees, penalty, loss of revenue with revenue implication of ₹ 248.47 crore in seven paragraphs (including two performance audits). Of these, the Department/Government had accepted audit observations involving ₹ 5.03 crore and had since recovered ₹ 0.35 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Accepted money value	Amount recovered
	Number	Money value		
2005-06	---	----	----	----
2006-07	2	0.31	0.31	0.11
2007-08	1	240.00	3.61	0.04
2008-09	1	0.37	0.37	0.20
2009-10	3	7.79	0.74	---
Total	**7**	**248.47**	**5.03**	**0.35**

The Government may institute a mechanism to monitor the position of recoveries pointed out in the Audit Reports and take necessary steps for early collection.

5.6 Working of internal audit wing

The details of the number of offices due for internal audit and those completed, as furnished by the Department, are given in the following table:

Year	Number of offices due	Number of offices completed	Balance	Percentage of col. 3 to 2
1	2	3	4	5
2006-07	62	62	----	100
2007-08	62	62	----	100
2008-09	62	62	----	100
2009-10	63	63	----	100
2010-11	63	NF*	----	--
* The Department stated that audit is being conducted in all zones periodically and is in progress for the year 2010-11.				

5.7 Results of Audit

We test checked the records of 30 Departmental offices during the period from April 2010 to March 2011 and found underassessment of tax, fees, penalty and other observations amounting to ₹ 9.49 crore in 95 cases, which broadly fall under the following categories:

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1	**Computerisation of Transport Department (A performance audit)**	1	1.69
2	Non/short collection of tax	40	7.01
3	Non/short collection of fee	34	0.30
4	Non/short collection of penalty	18	0.35
5	Others	2	0.14
	Total	**95**	**9.49**

During the course of the year 2010-11, the Department accepted under assessments and other deficiencies amounting to ₹ 1.32 crore in 100 cases and collected the amount, out of which ₹ 5.35 lakh involved in 15 cases were pointed out during the year and the rest in earlier years.

A performance audit on **"Computerisation of Transport Department"** involving money value of ₹ 1.69 crore is mentioned in the following paragraphs:

5.8 Performance audit on Computerisation of Transport Department

Highlights

- Failure to clearly frame up user requirements resulted in continued and repeated updation of software.

(Paragraph 5.8.8.1)

- Lack of periodical and continuous backup resulted in loss of information in two offices.

(Paragraph 5.8.8.2)

- Non-mapping of business rules resulted in non/short levy of tax.

(Paragraph 5.8.9)

- Lack of validation controls in the key fields affected the reliability of the information apart from wrong calculation of tax.

(Paragraph 5.8.10.2)

- Non-utilisation of modules resulted in short collection of tax of ₹ 20.90 lakh in respect of 167 vehicles.

(Paragraph 5.8.11.1)

5.8.1 Introduction

Road Transport is a concurrent subject under the Indian Constitution. While the legislation and coordination of road transport among States is done by the Central Government, the implementation of the various provisions of the Motor Vehicles Act is done by the States. Due to the increasing road network and phenomenal growth in the past decades, the Government of India (GOI) had felt an urgent need to create a National Database of registration, driving licenses, national permits etc. to serve as a reliable planning tool both for the Central and State Governments.

The Central Government has been encouraging the States to work on a standardised application format and to undertake computerisation of back-end processing based on such standardised formats using inter-operable software so that the registration certificates/national permits/driving licenses are readable throughout the country.

With a view to achieving the above objectives and as a part of the National e-Governance programme in order to usher in transparency and induction of Information Technology in Transport Sector, the Ministry of Road Transport and Highways approached the National Informatics Centre (NIC) in 2002, for development of standardised software. It would also be helpful in generating MIS reports like collection particulars, vehicle population, etc.

5.8.2 Organisational Structure

The Transport Department is headed by the Transport Commissioner and functions under the administrative control of the Home Department. The Transport Commissioner also functions as the State Transport Authority. There are seven zonal offices headed by Deputy Transport Commissioners, 61 Regional Transport Offices (RTOs), 49 unit offices (UOs) and 19 check posts in the State under the direct supervision of the Regional Transport Officers.

5.8.3 Computerisation

Vahan is an application developed by NIC for registration of vehicles, issue of permits, collection of road tax and to record fitness of vehicles.

Sarathi is an application developed by NIC for issue of learners license, permanent driving license, conductor's license, driving school license, etc.

The applications, 'Vahan and Sarathi' were developed on a two-tier architecture with Visual Basic as the front end application and supports MSSQL Server 7.0, 2000 or higher as back end.

Vahan and Sarathi were customised and tested at a pilot site (Chennai North) in November 2003. The same software was replicated in 41 offices in June 2005 and later in all other offices during 2007 to 2010 in a phased manner. The financial outlay for both Vahan and Sarathi on hardware and infrastructure facilities was ₹ 20.13 crore.

5.8.4 Audit objectives

We conducted the performance audit with a view to ascertain whether:

- the phase-wise implementation of Vahan and Sarathi was achieved as per time frame fixed;
- computerised systems implemented were complete (module wise) and to verify the correctness and completeness of the data captured by the RTO offices;
- connectivity systems established between RTOs in the State for the creation of State and National Registers of vehicle and licenses;
- the web based issue of National Permit was implemented as planned;
- reliable general and security controls were in place to ensure data security and audit trail; and
- the overall objectives of computerisation of the Department were achieved.

5.8.5 Scope and Methodology of audit

We conducted the performance audit during the period from June 2011 to September 2011 covering the period from 2006-07 to 2010-11. We scrutinised the documents relating to project implementation at the office of the Transport Commissioner. Apart from the above, we collected data from ten RTOs[43] and nine related unit offices[44] and five check posts[45] spread over Tamil Nadu by adopting Simple Random Sampling Method. Further, sample checks were made with manual records.

5.8.6 Acknowledgement

We acknowledge the co-operation extended by the Home (Transport) Department in providing us the necessary records and information. An entry conference was held with the Principal Secretary, Home (Transport) Department on 27 May 2011 in which the audit objectives and methodology were explained. The draft performance audit report was forwarded to the Government and the Department in September 2011. An exit conference was held with the Transport Commissioner on 28 October 2011 and the reply furnished during the exit conference has been suitably incorporated in the performance audit.

5.8.7 Audit findings

A performance audit on Computerisation of Transport Department was included in the Audit Report 2006-07. In the performance audit, certain important points like non-linking of State Transport Authority (STA), computerisation of check posts and deficiencies in input controls were pointed out. During the current performance audit, we noticed that though the check posts have been computerised to collect the fees comprehensively, there is no provision for capturing the break up of offences. Further, check posts are not linked either with the RTOs or with the unit offices. This resulted in non-existence of the database for offences apart from non-monitoring of offence at various offices. There was no inter-connectivity among the offices as well as with STA and the deficiencies in input controls continue to exist. The audit findings are detailed in the subsequent paragraphs.

5.8.8 General controls

General controls include controls over data centre operations, system software acquisition and maintenance, access security, and application system development and maintenance. They create the environment in which the application systems and application controls operate. Audit evaluated the above aspects and noticed the following deficiencies.

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[43] Chennai (Central and West) Coimbatore (North and South), Cuddalore, Meenambakkam, Thiruvanmiyur, Tiruvallur, Trichy and Vellore.

[44] Chidambaram, Gudiyatham, Manapparai, Neyveli, Poonamallee, Tambaram, Thiruverumbur, Vaniyambadi and Vridhachalam.

[45] Coimbatore (In and Out), Katpadi, Poonamallee and Serkadu.

5.8.8.1 Planning and implementation

Proper planning and implementation is necessary for success of any project. The study of project files and implementation in the field offices revealed the following deficiencies:

- **Vahan application –** After the software was rolled out at the pilot site for nearly two years from 2003, the Department replicated the software in the remaining RTOs during 2005-2010. Despite the existence of a nodal officer in charge of IT operations (Deputy Transport Commissioner I) and a monitoring committee headed by the Joint Transport Commissioner (Road Safety), the implementation of the software at the pilot site was not completely perfected before replication in other offices and there continued to be various versions and updation.

However, we noticed that the requirement of the software has not been frozen till now and hence two versions and 38 updations were developed.

Further, for generation of various reports, NIC had developed five versions during the period from 2008 to 2011. However, because of non-integration, the Department has to run different versions for generation of various reports like daily collection reports, ownership details, vehicle details, cancelled receipts, etc. Generation of various reports from multiple versions with patches shows deficiencies in the development of the software.

After we pointed this out, the Department during the exit conference replied (October 2011) that the complete documentation of all requirements would be framed immediately and forwarded to NIC.

- **Data migration from the legacy system for Vahan -** The basic objective of creation of State/National register would be achieved only if the data base is complete. We noticed that approximately 7.8 lakh records in 11 offices[46] are pending to be migrated from the legacy system. In practice, the data is updated as and when the subsequent transaction takes place**.** We observed that the Department has no defined plan for migration of the legacy system. To this extent, the database continues to be deficient.

After we pointed this out, the Department during the exit conference replied (October 2011) that action would be taken to migrate the data.

- **Connectivity -** Government sanctioned a sum of ₹ 1.19 crore (February 2008) to provide connectivity to all the Zonal offices, RTOs, UOs and check posts through Tamil Nadu State Wide Area Network (TNSWAN) connectivity for sharing of information. Based on the request made by the Department in September 2008, M/s Electronic Corporation of Tamil Nadu (ELCOT) Limited had submitted a detailed estimate for an amount of ₹ 3.48 crore in October 2008. Due to delay in finalisation of the project by the Department, the estimate was revised to ₹ 4 crore in June 2010. Subsequently, the revised estimates were forwarded to the Government by the Department in May 2011. The matter is still pending with the Government. As a result,

[46] Chidambaram, Coimbatore (North & South), Cuddalore, Gudiyatham, Meenambakkam, Neyveli, Tiruvallur, Vaniambadi, Vellore and Vridhachalam.

TNSWAN connectivity envisaged in February 2008 has not materialised till date (December 2011).

We observed during audit scrutiny that due to lack of inter-connectivity there exists two registration numbers for same vehicle in the database. In 16 offices[47], in respect of 168 cases there were duplicate entries of chassis numbers. Further, in four offices 11 registration numbers like 'TN31312204' were issued which were not in the standard format. While issuing permits at the RTO for the vehicles registered in the unit office, the data has to be captured for collecting the permit fee. At the time of data entry at the RTO, the registration number was entered incorrectly. This was further verified with register of motor vehicles and found that the wrongly entered registration numbers related to non-transport vehicles for which life time tax had been paid.

Due to lack of inter-connectivity among the RTOs and unit offices, unit office master details are captured again at the RTO and this resulted in existence of multiple master data. As connection was not provided to the users at the cash counter, verification of tax details, license details, permit details etc., among the RTOs and unit offices under its jurisdiction could not be made.

Due to the absence of connectivity at check posts the information with regard to cancellation of permits, thefts and blacklisted vehicles and tax arrears details could not be ascertained at the inter-state border.

After we pointed this out, the Department during the exit conference replied (October 2011) that the issue would be taken up in consultation with NIC.

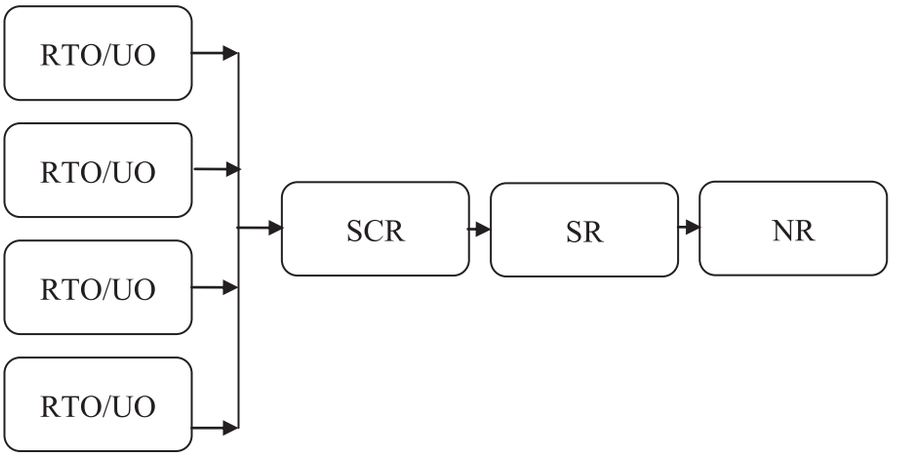
- **Smart Card –** The decision to issue smart cards was taken by the Department due to the following advantages such as: (i) the data stored in optical strip is digitally signed and prevents unauthorised access; (ii) the data can be updated but cannot be erased, this provides permanent audit trail and prevents intentional tampering; and (iii) this system shall have mobile hand-held terminals to read the data available in the smart card which enables enforcement officers to have quick access. In December 2007, the Department invited tenders and in October 2008, an agreement was signed with the only selected vendor and the smart card scheme was implemented in three pilot sites. The Government ordered (May 2010) to implement the smart card scheme in other RTOs/UOs. Subsequently the Department invited tenders (June 2010). Since one of the tenderers had obtained stay order from the Hon'ble Madras High Court (March 2011) with regard to the tender processing, the Department could not implement the scheme of issue of smart card in other offices. Due to non-implementation of issue of smart card, the perceived benefits such as prevention of unauthorised access, audit trails and quick access by enforcement officers could not be achieved.

After we pointed this out, the Department replied (October 2011) during the exit conference that action would be initiated as soon as the court stay is vacated.

[47] Ayanavaram, Chidambaram, Coimbatore (North & South), Cuddalore, Gudiyatham, KK Nagar, Meenambakkam, Neyveli, Poonamallee, Tambaram, Tiruvallur, Tiruverumbur, Trichy, Vellore and Vridhachalam.

- **State Register/National Register:** The information captured at the RTO level is transferred to the State Consolidation Register (SCR) to act as back up data for disaster recovery. The data transmission through VPN connection occurs on a daily basis at scheduled times. Selected data from the SCR is to be replicated to the State Register (SR) which will act as a repository at the State level to provide information to the State Transport Department, RTOs, automobile dealers and Police Department. Selected data from the State registers will flow to the National Register (NR). This will also enable the users to avail the service on "anywhere service" basis.

DATA FLOW



We analysed the website relating to State Register and National Register for correctness and completeness of the information. The analysis revealed the following:

- In the **State Register** certain important information, viz., permit details, financier details, convicted license details and suspended/ cancelled driving license details are not available.
- The macro level details such as revenue collection, total number of vehicles registered, permits and driving licenses issued in a year are generated from the MIS report of the SR.
- When a new unit office is formed under any RTO, the data dump relating to the jurisdiction of the unit office is replicated at the unit office from the RTO and subsequently transmitted to the SR. As tax details are also transferred along with the vehicle details, the SR showed the tax collection at the RTO as well as at the unit office resulting in replication of data.
- In the **National Register** there is no provision to capture information on permit, validity of certificate of fitness in respect of transport vehicles, validity of registration in respect of non-transport vehicles and tax remittance particulars. Further, the vehicle details available in the SR are not available in the NR.

We recommend that the Government may consider freezing the user requirement, creating interconnectivity and completing data migration within a specified time frame.

5.8.8.2 Business continuity plan

Business continuity planning is essential to ensure that the organisation can prevent disruption of business and resume processing in the event of a total or partial interruption of information availability. We observed that though standby servers were provided in each office for immediate restoration of the system, they were not configured on mirroring technology; instead backups were taken on a daily basis in a removable hard disk. At the time of disruption in the main server, the standby server was operated from the available backup to resume the process. Due to this, data lost between the time of backup and the time of crash cannot be restored. We noticed that in the RTO Cuddalore and Meenambakkam, there was loss of data for nine and fifteen days in 2008-09 and 2009-10 respectively while restoring the data due to non-existence of daily backup. Though master data was manually captured subsequently, the collections made during the period were not captured.

5.8.9 Mapping of business rules

All the relevant business rules and procedures are required to be identified and suitably incorporated in the system. Audit analysis revealed that the following rules were not mapped.

- **Collection of penalty –** Quarterly tax has to be paid within 45 days of commencement of the quarter. For delayed payment penalty is leviable at 25, 50 and 100 *per cent* for delay beyond 45, 60 and 90 days respectively. For automatic calculation of penalty for belated payment of tax, the penalty rates and parameters have to be mapped in the system. We observed from an analysis of the database for the period from April 2007 to March 2011 that for 81,995 vehicles, though tax was paid after the stipulated period, penalty was not collected due to non-mapping of the penalty rates in the software. We checked the DCB register and found that in the RTO Chennai Central, around ₹ 0.98 lakh was due as penalty in respect of 44 cases out of 61 cases test checked.

- **Collection of quarterly tax in respect of transport vehicles whose permits were renewed but not updated in the system:** The road tax for the transport vehicle has to be calculated after fixing parameters like seating capacity and laden weight through the issue of permit. The above business rule of ensuring validity of the permit was not made mandatory in the system while collecting the road tax.

We noticed that quarterly tax in respect of 509 vehicles continued to be collected though the validity of the permit of the vehicles was shown as 'expired' in the system. The above cases were cross verified with the manual records and we found that the Department had manually verified the permit validity. In view of this the data available in the system could not be relied upon.

We recommend that the software needs to be modified making it mandatory to enter permit details while calculating the quarterly tax.

- **Collection of idle tax in respect of goods carriages:** If any vehicle is kept idle, the refund of tax already received for the period in which the vehicle was kept idle was required to be supported by a stoppage report by the Motor Vehicle Inspector that the vehicle was actually idle. We noticed that the provision has not been mapped in the software. Further, the Department was also collecting an amount of ₹ 105 per month for the period the vehicle was kept idle. In the absence of any provision in the Act, collection of any amount as 'idle tax' was not in order.

- **Grant of driving license for persons below 18 years:** As per Section 4 of the Motor Vehicles Act, 1988, no person under the age of 18 years should drive a motor vehicle in any public place provided that a motor cycle with engine capacity not exceeding 50 cubic capacity may be driven in a public place by a person after attaining the age of 16 years.

We noticed that while granting driving license for applicants who were under 18 years of age, the class of vehicle was indicated as "motor cycle without gear" instead of "motor vehicle with less than 50 cubic capacity". Non-mapping of this business rule led to incorrect grant of license to persons below 18 years in 78 cases in eight offices[48].

We recommend that the Government may take necessary steps to incorporate all the business rules and procedures within a time frame.

5.8.10 Application controls

Application controls pertain to specific computer applications. They include controls that help to ensure proper authorisation, completeness, accuracy and validity of transactions. We observed the following deficiencies in the application controls.

5.8.10.1 Manual override

While computerising the functions of any critical system, it should be ensured that there is no option for the user to manually override the functions. The study of the application along with the data analysis and verification of manual records revealed that there was manual intervention and tax was omitted to be collected in the following instances. Allowing the users to manually override the system is a serious security threat to the Department as it provides an opportunity for non/short levy of taxes.

- **Road Tax:** There exists a regular mode namely 'quarterly, half-yearly, yearly" for collection of tax. We noticed that the Department bypassed the use of regular mode through manual intervention for collection of taxes for the current period even though the tax for earlier period was in arrears. Further, the defaulters' list generated through the system did not depict the

[48] Ayanavaram, KK Nagar, Meenambakkam, Tambaram, Tiruvallur, Tiruvanmiyur, Vaniyambadi and Vellore.

same. In 13 offices[49] in respect of 8,701 cases, tax for the current period, was collected even though the tax for earlier periods was in arrears. We test checked 1,146 cases from the manual records and found that arrears of tax amounting to ₹ 38.92 lakh were due for 535 vehicles. In the remaining cases tax clearance certificates had been issued and the period of tax collection was entered wrongly in the system as verified from the demand collection balance (DCB) register.

After we pointed this out, the Department replied during the exit conference that the privilege of bypassing regular mode was restricted to the RTO and further stated that the collection of such arrears and for generation of arrear report would be monitored in consultation with NIC.

- **Life time tax**: Life time tax for non-transport vehicles at the time of registration was to be calculated automatically by the system based (percentage) on the cost of the vehicle. Change registration data menu allows for editing the vehicle information including cost of the vehicle. We noticed that in 17 offices[50], for the period from April 2007 to March 2011, in respect of 647 vehicles, there was difference of tax collected with reference to the cost of the vehicle resulting in short collection of life time tax. We further observed from the database that for the period from March 2009 to March 2011, in respect of non transport vehicles, while the value of the vehicle was uploaded by the dealers, the same was not taken into account for the purpose of calculation of tax. Instead, the RTOs adopted the value stated in the invoices, which was less than the value already uploaded in the system by the dealers. The Department needs to investigate the short collection of tax.

- **Road Safety tax:** The collection of taxes and fees module at the cash counter has a provision to list down all the taxes/fees to be collected for all the categories of vehicles. The user at the cash counter has to select the fees and taxes applicable for each transaction through manual intervention instead of the system generating them automatically. In 17 offices[51], road safety tax was omitted to be collected in respect of 408 vehicles, amounting to ₹ 3.62 lakh as verified from Form 20 (application form for registration of vehicles) and the receipt annexed thereto.

After we pointed this out, the Department stated (October 2011) during the exit conference that necessary modification would be made in the software in consultation with NIC.

The Department replied (October 2011) during exit conference that the issue would be taken up with the dealers to adopt a single value and also agreed to collect the difference of tax from the dealers.

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49 Ayanavaram, Coimbatore (North & South), Cuddalore, Gudiyatham, KK Nagar, Manaparai, Meenambakkam, Trichy, Tiruvanmiyur, Tiruverumbur, Vaniyambadi and Vellore.

50 Ayanavaram, Chidambaram, Coimbatore (North & South), Cuddalore, Gudiyatham, KK Nagar, Manaparai, Meenambakkam, Neyveli, Poonamallee, Tambaram, Tiruvallur, Tiruvanmiyur, Trichy, Vaniyambadi and Vridhachalam.

51 Ayanavaram, Chidambaram, Coimbatore (North & South), Cuddalore, KK Nagar, Manaparai, Meenambakkam, Neyveli, Poonamallee, Tambaram, Tiruvallur, Tiruvanmiyur, Tiruverumbur, Trichy, Vellore and Vridhachalam.

- **Data security:** The security of information system involves the protection of computerised data from unauthorised modification. The software is also designed to generate the receipt number automatically on random basis.

On verification of the database and generation of receipt status from the report we noticed that, a single receipt number was shown for more than one vehicle in 267 cases relating to five offices[52] which is indicative of unauthorised intervention and modification in the database. Further, as there was no audit trail/exceptional report for such modifications, the custodian of the data could not monitor such issues. This indicates a serious security lapse in the information system, where the risk of tampering with the data is high.

After we pointed this out, the Department stated (October 2011) during exit conference that this was not possible through Vahan software as the receipts were auto generated by the system and further stated that action would be taken on the issues pointed out by audit.

5.8.10.2 Validation

Validation controls in the system render the database complete and reliable. Lack of validation controls in the key fields affected the reliability on the information generated by the system as detailed below:

- **Key fields:** The database contained information of 'date from' and 'date upto' for which the tax had been collected for the purpose of indication of the period for which the tax payment was made. In 2,821 cases there was acceptance of dates such as 1 January 1900, 1 April 2011 to 31 March 2011, etc. and in 74,158 cases the sale amount was shown as zero. This indicated deficient validation control in the software in addition to the risk of omission of tax collection details and generation of wrong MIS.

- **Collection of tax by cheque**: The collection of tax by cheque is meant only for state transport vehicles having a unique registration alphabet 'N'. In 19 offices[53], in 28,524 cases, the mode of collection of tax was selected as 'cheque', though tax has been collected by the prescribed mode viz., bankers' cheque, demand draft etc as verified from the 'bank draft register'. Absence of the validation control led to wrong generation of the daily collection report.

- **Continuity in assigning registration number:** As per Section 41(6) of MV Act, a registering authority shall assign a unique mark in a series to every vehicle at the time of registration. As per the Government Order No.1195 dated 1 July 1989, before a current series gets exhausted, registration number in the next series should not be allotted. In six offices[54], though 6,130 registration numbers remained unallotted in the previous series, registration numbers were issued in the subsequent series.

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52 Coimbatore (North & South), Poonamallee, Tiruvallur, Tiruvanmiyur.

53 Ayanavaram, Coimbatore (North & South), Chidambaram, Cuddalore, Gudiyatham, KK Nagar, Manaparai , Meenambakkam, Neyveli, Poonamallee, Tambaram, Trichy, Tiruvallur, Tiruvanmiyur, Tiruverumbur, Vaniyambadi, Vellore and Vridhachalam.

54 Coimbatore (North & South), Poonamallee, Tiruvallur, Tiruvanmiyur and Vridhachalam.

- **Qualification for issue of conductor/driver licenses**: As per rule 55 of the Tamil Nadu Motor Vehicles Taxation Rules, no person shall be granted a conductor license unless he has passed SSLC public examination or equivalent thereof and is able to read and write freely and easily in Tamil. Under Rule 8 of the Central Motor Vehicle Rules, 1989, minimum educational qualification for obtaining a license to drive a transport vehicle shall be a pass in the eighth standard. This provision has also been incorporated in the "Vahan and Sarathi" softwares.

In 17 offices[55], in 29,365 cases the information regarding educational qualification was not filled. Nevertheless, the system generated the license.

- **Grant of driving license after the expiry of learners' license:** As per the provisions of Section 14 of the Motor Vehicles Act, 1988 a learner's license is effective for a period of six months from the date of issue of the license and regular license can be obtained on the expiry of 30 days from the date of issue of learners license. The software has a provision to disallow the issue of driving license beyond the date of expiry. In 16 offices[56] 1,090 licenses were issued after the expiry of the validity period of learners' license in violation of the provisions of the Act.

- **Collection of driving license fees**: In 16 offices[57] in respect of 7,592 cases relating to the period from April 2007 to March 2011, the details of collection of fees for issue of driving licenses were not available in the system. We verified from cash records and receipts that the driving license fees had been actually collected, but the deficiency in the software resulted in non reflection of the same.

We recommend that the Government may put in place a mechanism to ensure that the data entered in the system is correct and the validation checks are sufficient.

After we pointed this out, the Department replied (October 2011) during the exit conference that such validation would be built in the software by NIC.

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55 Ayanavaram, Coimbatore (North & South), Gudiyatham, KK Nagar, Manaparai, Meenambakkam, Neyveli, Poonamallee, Tambaram, Tiruvallur, Tiruvanmiyur, Tiruverumbur, Trichy, Vaniyambadi, Vellore and Vridhachalam.

56 Ayanavaram, Coimbatore (North & South), Gudiyatham, KK Nagar, Manaparai, Meenambakkam, Neyveli, Poonamallee, Tambaram, Tiruvallur, Tiruvanmiyur, Trichy, Vaniyambadi, Vellore and Vridhachalam.

57 Ayanavaram, Coimbatore (North & South), Gudiyatham, KK Nagar, Manaparai, Meenambakkam, Neyveli, Poonamallee, Tiruvallur, Tiruvanmiyur, Tiruverumbur, Trichy, Vaniyambadi, Vellore and Vridhachalam.

5.8.11 Other points of interest

5.8.11.1 Non-utilisation of module

- **Re-registration of motor vehicles of other states -** Life time tax for re-registration of non-transport vehicles is to be levied at a percentage of the cost of the vehicle depending upon the age of the vehicle from the date of original registration. The rate of tax ranged between 2.75 and 12 *per cent* depending upon the age of the vehicle.

For updation of amendments of tax rates based on the parameters there exists a module namely 'Tax slab' in the application. This has to be updated for calculating the tax automatically. This has not been updated by the RTOs and unit offices. Further, there was no instruction from the Department for updating the same. Instead, the taxes for re-registration were calculated manually and collected through the system. We observed from the database for the period from April 2007 to March 2011, that in 15 offices in respect of 167 vehicles, the tax for re-registration was calculated wrongly resulting in short collection of tax of ₹ 20.90 lakh.

5.8.11.2 Output control

Output controls ensure that all output was produced and distributed on time, fully reconciled with pre-input control parameters, errors and exceptions are properly investigated and acted upon. The following instances of non/incorrect generation of reports were seen:

- **Monthly periodical report:** Monthly periodical reports containing various information like vehicle details, tax collection details, arrears of taxes, blacklisted vehicle, and permit details are prepared by the RTOs/UOs. Except the revenue collection report, all other reports are prepared manually, due to non-updation of information.

- **List of defaulters for payment of road tax:** The software developed by NIC has a provision to map the vehicle for which 'tax clearance certificate' (TCC) to other RTOs and 'No objection certificate' (NOC) for vehicles proceeding to other states has been issued. Even though NIC had developed a version for mapping such changes, the provision has not been implemented in the customised version used by the Department. Thus the list of defaulters report generated by the system was not correct.

We verified for a particular class of vehicle viz., 'Maxicab' and found that in 18 offices[58] there were 20,563 tax defaulters for the period April 2007 to March 2011, for whom the Department did not issue notice for collection of demand as the list includes vehicles for which TCC and NOC have been issued. We conducted test check from the manual records in respect of 1,633 vehicles and found that in respect of 223 vehicles for which TCC/NOC has not been issued there was non-levy of tax to the tune of ₹ 37.42 lakh. In the remaining cases TCC/NOC had been issued apart from cancellation of permits as verified from the demand collection balance (DCB) register.

- **Transport vehicles due for renewal of permit:** We noticed that the report of the list of transport vehicles which were due for renewal of permit was not generated and as such the Department did not have any mechanism for automated monitoring of the vehicles which were due for renewal of permit. In 10 offices the permits of 1,032 tourist taxis have not been renewed so far (December 2011) though renewal was due as early as in April 2007 as verified from the manual permit register. This resulted in non-collection of permit fees/tax to the tune of ₹ 67.03 lakh.

5.8.12 Conclusion

Though the Department implemented Vahan and Sarathi in all offices, requirements from the system have not been completely analysed, framed and documented while replicating the softwares in the RTOs after pilot study. This resulted in many updations in the software after initiation of the project. Even after several updations, the software is incomplete by non-validation in the key fields, non-mapping of business rules and necessitating manual intervention for calculation of taxes and penalty in certain cases. Non-migration of the legacy data, lack of connectivity among offices/check posts and creation of multiple records for tax collection affected the reliability of the information available in the State Register.

5.8.13 Recommendations

The Government may consider the following:

- **firming up the user requirement specifications and mapping all the business rules to avoid repeated updation and manual intervention;**
- **evolving a suitable mechanism to ensure that the data entered in the system is correct and the validation checks are sufficient;**
- **ensuring the correctness of the data in the SCR before this is captured in the State Register/National Register;**

[58] Ayanavaram, Chidambaram, Coimbatore (North & South), Cuddalore, Gudiyatham, KK Nagar, Manaparai, Meenambakkam, Neyveli, Poonamallee, Tambaram, Trichy, Tiruvallur, Tiruverumbur, Vaniyambadi, Vellore and Vridhachalam.

- **providing inter-connectivity among all the RTOs, unit offices, check posts and STAs; and**
- **ensuring the correctness of the invoice value before levying tax for non-transport vehicles.**

CHAPTER VI

OTHER TAX RECEIPTS

Executive Summary

Multiple increase in tax collection	In 2010-11 the collection of revenue from Electricity Taxes increased by 46 times over the previous year which was attributed by the Department to remittance of ₹ 1,602.84 crore of electricity tax pertaining to earlier years by Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) in March 2011.
Internal audit	Internal audit is regularly conducted by the Department and was in progress for the year 2010-11.
Results of audit conducted by us in 2010-11	In 2010-11 we test checked the records of 11 units and found underassessment of electricity tax, non-levy of interest and other observations amounting to ₹ 375.27 crore in 20 cases. The Department accepted underassessments and other deficiencies amounting to ₹ 1.05 crore in 16 cases, out of which, ₹ 95.92 lakh involved in five cases were pointed out during 2010-11 and the rest in earlier years. Out of the above, an amount of ₹ 9.04 lakh has been collected.
What we have highlighted in this Chapter	In this chapter we present illustrative cases of ₹ 270.73 crore selected from observations like non/short collection of electricity tax, short adjustment of interest, etc. noticed during our test check of records in the Electrical Inspectors' offices, where we found that the provisions of the Act/Rules were not observed. It is pertinent to mention that though similar omissions have been pointed out by us in earlier years, the Department had not taken corrective action despite the fact that these mistakes were apparent from the records made available to us.
Our conclusion	The Department needs to initiate action to recover the non/short levies pointed out by us.

CHAPTER VI
OTHER TAX RECEIPTS
ELECTRICITY TAXES

6.1 Tax administration

The Chief Electrical Inspector, who also acts as the Director of Electricity Tax administers the Tamil Nadu Tax on Consumption or Sale of Electricity Act 2003 and the Rules made thereunder. He is assisted by Senior Electrical Inspectors and Electrical Inspectors, Chief Accountants, Administrative Officers and Superintendents. The overall control is vested with the Secretary to the Government, Energy Department.

6.2 Trend of receipts

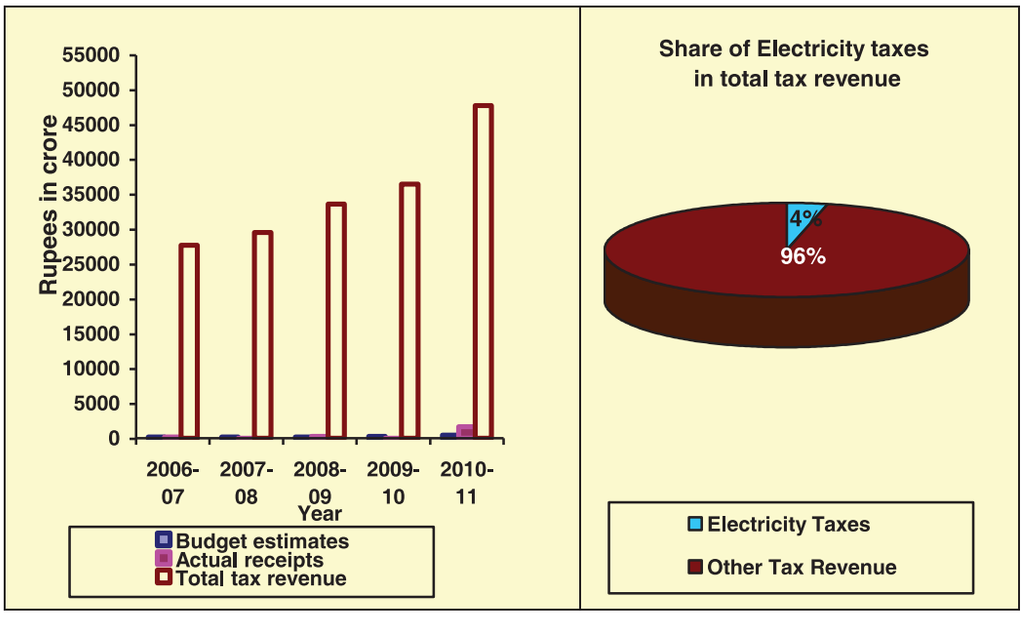
Actual receipts from electricity tax during the period from 2006-07 to 2010-11 along with the total tax receipts during the same period are exhibited in the following table:

(₹ in crore)

Year	Budget estimates	Actuals	Variation excess (+)/ short fall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts *vis-à-vis* total tax receipts
2006-07	250.00	266.40	(+) 16.40	(+) 6.56	27,771.15	1
2007-08	250.00	37.21	(-) 212.78	(-) 85.11	29,619.10	---
2008-09	250.09	355.69	(+) 105.60	(+) 42.22	33,684.37	1
2009-10	361.78	37.06	(-) 324.72	(-) 89.76	36,546.66	---
2010-11	528.73	1,745.43	(+) 1,216.70	(+) 230.12	47,782.17	4

The Department attributed the reasons for the decrease in the actuals due to non-receipt of payments from the erstwhile Tamil Nadu Electricity Board and for the increase in actual receipts over the estimates in the year 2010-11, to remittance of a sum of ₹ 1,602.84 crore made by Tamil Nadu Generation and Distribution Corporation Limited towards electricity tax in March 2011 for the dues from November 2006 to April 2010.

A bar chart of budget estimates, actual receipts and total receipts and a pie chart depicting the position of electricity tax receipts in the total tax receipts are given in the following page:



In 2010-11 the collection of revenue from Electricity Taxes increased by 46 times over the previous year

6.3 Arrears of revenue

The arrears of revenue as on 31 March 2011 though called for (July/December 2011) has not been furnished by the Department (December 2011).

6.4 Impact of Audit Reports

6.4.1 Revenue impact

We had pointed out one paragraph on non levy of tax with revenue implication of ₹ 1.02 crore through our Audit Report for the year 2005-06 and the Department/Government had accepted the audit observation. The amount is yet to be recovered.

The Government may institute a mechanism to monitor the position of recoveries pointed out in the Audit Reports and take necessary steps for early collection.

6.5 Working of internal audit wing

The details of the number of offices due for internal audit and those completed, as furnished by the Department, are given in the following table:

Year	Number of offices due	Number of offices completed	Balance	Percentage of col.3 to 2
1	2	3	4	5
Upto 2007-08	30	30	0	100
2008-09 & 2009-10	24	24	0	100
2010-11	24	10	14	41.67

The Department stated that the internal audit is in progress for the year 2010-11. It also stated that there is no support staff for Audit wing and only one Chief Accountant's post is operated.

6.6 Results of Audit

We test checked the records of 11 Departmental offices during the period from April 2010 to March 2011 and found underassessment of electricity tax/duty and other observations amounting to ₹ 375.27 crore in 20 cases, which broadly fall under the following categories.

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1	Non-levy/collection of electricity tax, duty and additional tax	6	32.30
2	Non-levy/collection of inspection fees, testing fees, fine and penalty	4	0.12
3	Non-renewal/collection of licence fees under Lift Act, 1997	2	0.01
4	Non-collection of interest for belated payment of electricity tax	3	318.79
5	Short collection/payment of tax due to incorrect availment of exemption	3	24.04
6	Other observations	2	0.01
	Total	**20**	**375.27**

During the course of the year 2010-11, the Department accepted under assessments and other deficiencies amounting to ₹ 1.05 crore in 16 cases, out of which ₹ 95.92 lakh involved in five cases were pointed out during the year and the rest in earlier years. Out of the above an amount of ₹ 9.04 lakh has been collected.

We observed from test check of the records in the office of the Electrical Inspector, Salem during January 2011 that a company paid electricity tax of ₹ 2.93 crore belatedly. The delay in depositing the tax ranged between one to three months, for which interest of ₹ 4.79 lakh was not demanded. After we pointed this out, the Government replied (July 2011) that the entire amount has been collected.

A few illustrative cases involving ₹ 270.73 crore are mentioned in the following paragraphs:

6.7 Audit observations

We test checked the records in the offices of the Energy Department relating to revenue received from electricity duty/ tax, etc. and noticed several cases of non-observance of the provisions of the Act/Rules resulting in non/short levy of tax and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and based on test checks carried out by us. Although such omissions are pointed out every year, the irregularities continue to persist and remain undetected till the next audit is conducted.

6.8 Non-compliance of the provisions of the Act/Rules

The provisions of the Tamil Nadu Tax on Consumption or Sale of Electricity Act, 2003 and the Rules made thereunder require payment of electricity tax at the time of sale or consumption of electricity as per the rates provided in the Act.

We noticed non-compliance of the provisions of the Act/Rules in some cases as mentioned in paragraphs 6.8.1 to 6.8.3 which resulted in non/short realisation of ₹270.73 crore.

6.8.1 Non-levy of electricity tax

As per Section 3 of the Tamil Nadu Tax on Consumption or Sale of Electricity Act, 2003, every licensee and every person other than a licensee, shall pay every month to the Government, a tax on the electricity sold or consumed during the previous month.

The Government by an order dated 13 June 2003 had notified the rate of tax on the electricity sold by the licensees other than captive generating plants as five *per cent* on the net charge*.

We observed during test check of the returns filed by a company in the office of the Electrical Inspector, Cuddalore (August 2010) that the company sold 8.53 crore units of electricity to four textile mills during the period between May 2007 and March 2010. Electricity tax, though leviable on this sale, was not levied treating the sale made to the textile mills as exempt. As sale made to textile mills has not been specifically exempted, the exemption allowed was not in order. This resulted in non-collection of electricity tax of ₹ 85.32 lakh.

* Section 2 (12) of the Act defines the "net charges" as the amount of gross charge that remains after deduction therefrom of any rebate referred to in clause (7) of this section or refund of fuel surcharge or other surcharge, if any. However, the terms "energy charges", "net charges, gross charges and other charges" were replaced with a single term "consumption charge" in June 2003.

After we pointed this out to the Department in May/September 2010 and to the Government in May 2010/January 2011, the Government replied (July 2011) that the licensee had remitted a sum of ₹ 5.00 lakh in November 2010 and had obtained an interim stay, for collection of the balance tax, from the Hon'ble High Court of Madras. We await further report (December 2011).

6.8.2 Non-collection of electricity tax

As per Section 3 of the Tamil Nadu Tax on Consumption or Sale of Electricity Act, 2003, every licensee and every person other than a licensee shall pay every month to the Government, a tax on the electricity sold or consumed during the previous month.

The Government vide order issued on 13 June 2003 notified the rate of tax on electricity as 10 paise per unit, consumed by a person other than a licensee.

6.8.2.1 We observed during test check of the records in the offices of the Electrical Inspectors, Salem and Virudhunagar (January 2011) that three licensees[59] having captive power generating plants (CPP) for captive consumption and supply to their sister concerns, had not paid tax for the period from April 2005 to August 2008 (excluding the period from March 2008 to May 2008). In the absence of any exemption granted for this period, the companies were liable to pay the tax on the units generated and consumed during this period. The Department, however, did not take action to collect the electricity tax payable by the companies. This resulted in non-collection of electricity tax of ₹ 9.77 crore. Besides, interest is also leviable.

[59] M/s.JSW Steel Ltd., Salem(East), M/s.Arkay Energy (Rameswaram) Ltd. and M/s. Sai Regency Power Corporation (P) Ltd., Kalugoorani, Rameswaram.

After we pointed this out to the Department in September 2010 and the Government in March 2011, the Government stated (July 2011) that demand notices have been issued in all the cases. We await further report (December 2011).

As per Section 3 of the Tamil Nadu Tax on Consumption or Sale of Electricity Act, 2003, every licensee and every person other than the licensee shall pay every month to the Government a tax on the electricity sold or consumed at the rate specified.

According to Rule 3 of the Electricity Rules 2005, notified by the Government of India (June 2005), a 'captive generating' plant should captively consume not less than 51 *per cent* of the aggregate electricity generated in such plant, determined on annual basis. In case the minimum percentage of captive use was not complied with in any year, the entire electricity generated should be treated as if it was a supply of electricity by a generating company. The Government of Tamil Nadu, in June 2003, had notified that the rate of tax on the electricity sold by the licensees shall be five *per cent* on the net charge.

6.8.2.2 We observed during test check of the records in the offices of the Electrical Inspector, Salem during January 2011 that a licensee having a captive generating plant had consumed 46.80 lakh units out of 8,600 lakh units generated during 2009-10 which worked out to 0.54 *per cent* only. However, the Department had collected electricity tax at the rate of 10 paise per unit instead of at the prescribed rate of five *per cent* on the net charge. This resulted in short collection of ₹ 8.19 lakh.

After we pointed this out to the Department in February 2011 and the Government in March 2011, the Government replied (July 2011) that demand notices have been issued (May 2011). We are awaiting further reports (December 2011).

6.8.3 Short adjustment of interest

According to Section 3 of the Tamil Nadu Tax on Consumption or Sale of Electricity Act, 2003, every licensee and every person other than a licensee shall pay every month to the Government, a tax on the electricity sold or consumed during the previous month at the prescribed rate.

According to Section 7 of the Act *ibid* read with Rule 7 of the Tamil Nadu Tax on Consumption or Sale of Electricity Rules, 2003, the unpaid electricity tax shall be deemed to be in arrears and interest at 12 *per cent* per annum is leviable for each calendar month of delay.

We observed during test check of the records in the office of the Chief Electrical Inspector (CEI), Chennai in May 2010, that Tamil Nadu Electricity Board (TNEB) had collected electricity tax from consumers and such collections made from November 2006 onwards were not remitted into Government account on the grounds of poor ways and means position. As the TNEB did not remit the tax collected, they were liable to pay interest.

We reported the case to the Department and the Government in May 2010. The Government by an order of December 2010 sanctioned conversion of electricity tax of ₹ 1,122.84 crore for the period from November 2006 to March 2009 as equity share capital. An amount of ₹ 112.29 crore towards penal interest was also adjusted as equity share capital to TNEB. Since the GO adjusting the electricity tax payable by the TNEB was issued in December 2010, interest is leviable upto that period. However, it is seen that though an amount of ₹ 372.32 crore (calculated upto November 2010[60]) was payable as interest for the belated payment/adjustment of electricity tax relating to the period from November 2006 to March 2009, a sum of ₹ 112.29 crore only was adjusted towards interest. Thus, interest amounting to ₹ 260.03 crore was omitted to be collected/adjusted.

[60] Interest is leviable for each calendar month of delay and hence interest was calculated upto November 2010.

We brought the matter to the notice of the Government again in December 2010. We are awaiting their reply (December 2011).

CHAPTER VII

NON-TAX RECEIPTS

CHAPTER VII
NON-TAX RECEIPTS

7.1 Results of Audit

We test checked the records of 15 offices in Industries Department (Mines and Minerals) and also six Departments for Interest Receipts during the period from April 2010 to March 2011 and found non/short-levy of dead rent, seigniorage fee, brick mineral annual fee, non-raising of demand for interest/penal interest, short adjustment of interest/penal interest and other observations amounting to ₹ 367.33 crore in 23 cases, which broadly fall under the following categories:

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
	A – Mines and Minerals		
1	Non/short levy of dead rent, seigniorage fee, royalty	16	0.58
2	Incorrect classification of mineral	1	5.29
3	Other observations	5	0.44
	sub-total	**22**	**6.31**
	B – Interest Receipts		
4	Interest receipts	1	361.02
	sub-total	**1**	**361.02**
	Grand Total	**23**	**367.33**

During the course of the year 2010-11, the Industries Department accepted underassessments and other deficiencies amounting to ₹ 0.99 crore in 13 cases, out of which, ₹ 76.72 lakh involved in four cases were pointed out during the year and the rest in earlier years. Out of the above an amount of ₹ 22.90 lakh has been collected.

A few illustrative cases involving ₹ 361.78 crore are mentioned in the following paragraphs:

A – Mines and Minerals

7.2 Audit observations

We test checked the records in the offices of the Industries and Finance Departments relating to revenue received from royalty, seigniorage fee, dead rent, interest on loans and advances etc. and noticed several cases of non-observance of the provisions of the Acts/Rules resulting in non/short collection of dead rent, royalty and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and based on test checks carried out by us. Although such omissions are pointed out every year, the irregularities persist and remain undetected till the next audit is conducted. There is need for the Government to consider directing the Departments to improve the internal control systems including strengthening of internal audit so that such omissions can be avoided, detected and corrected.

7.3 Non-compliance of the provisions of the Act/Rules

The provisions of the Mines and Minerals (Development and Regulation) Act, 1957 and the Tamil Nadu Minor Mineral Concession Rules, 1959 require the licensee to pay royalty/seigniorage fee/dead rent in respect of minerals removed by him from the leased area, at the prescribed rates. Whenever royalty/seignorage fee in a year is less than the dead rent, the dead rent is payable in lieu of royalty/seignorage fee.

We noticed non-compliance of the provisions of the Act/Rules involving non/short realisation of ₹ 76.56 lakh in some cases as mentioned in paragraphs 7.3.1 to 7.3.3.

7.3.1 Non/short collection of dead rent

According to Section 9-A of the Mines and Minerals (Development and Regulation) Act, 1957 read with Rules 8, 8-A and 8-C of the Tamil Nadu Minor Mineral Concession Rules, 1959, the holder of mining lease in respect of major and minor minerals shall pay royalty/ seigniorage fee or dead rent, whichever is greater, at the prescribed rates.

We observed during test check of the concerned registers in the office of the Assistant Director (Geology and Mining), Vellore in April 2010 that in respect of two leases granted for quarrying black granite to M/s. Tamil Nadu Minerals Ltd., though the dead rent of ₹ 34.45 lakh was higher than the seigniorage fee of ₹ 10.22 lakh paid for the year 2009-10, dead rent was not demanded. This resulted in short collectionof ₹ 24.23 lakh. We further observed during test check in the offices of the seven

Deputy/Assistant Directors, Geology and Mining[61] between April and September 2010, that in respect of 68 lessees for the period between 2003 and 2010 either the seigniorage fees paid for the mining activity was lesser than the dead rent or the dead rent for the inoperative period was not paid at all. The Department did not raise the demand for the dead rent. This resulted in non-collection of dead rent of ₹ 15.81 lakh. The overall short collection amounted to ₹ 40.04 lakh.

After we pointed this out between May 2010 and October 2010, the Department replied (between December 2010 and May 2011) that a sum of ₹ 32.08 lakh had been collected. We are awaiting further report (December 2011).

We reported the matter to the Government in March 2011 and are awaiting their reply (December 2011).

7.3.2 Non-collection of brick mineral annual fees

As per Rule 19(2) of the Tamil Nadu Minor Mineral Concession Rules, 1959, every brick manufacturing unit shall, for quarrying brick earth, apply for quarrying permit and remit the brick mineral annual fee at the rate specified based on the number of chambers. The permit shall be valid for a period of one year

We observed during test check of the records of the offices of the six Deputy/Assistant Directors of Geology and Mining[62], (between April and December 2010) that 45 brick manufacturing units and six country kilns did not obtain permits for quarrying brick earth and the Department had also failed to collect the annual fee from them. This resulted in non collection of annual fees of ₹ 28.56 lakh.

After we pointed this out between May 2010 and January 2011, the Commissioner of Geology and Mining replied (May 2011) that a sum of ₹ 15.01 lakh pertaining to five offices[63] had been collected. We are awaiting further report (December 2011).

We reported the matter to the Government in March 2011 and are awaiting their reply (December 2011).

[61] Erode, Kancheepuram, Pudukkottai, Salem, Theni, Vellore and Villupuram.
[62] Erode, Karur, Nagapattinam, Sivagangai, Tirunelveli, and Tiruvallur.
[63] Erode, Nagapattinam, Sivaganga, Tiruvallur and Tirunelveli.

7.3.3 Short collection of royalty

According to Section 9 of the Mines and Mineral (Development and Regulation) Act, 1957, the holder of the mining lease shall pay royalty in respect of any mineral removed or consumed, by him, from the leased area at the rate, for the time being, specified in the Second Schedule in respect of that mineral. The Central Government may, enhance or reduce the rates of royalty in respect of any mineral, by notification in the official gazette. The Central Government had enhanced the rate of royalty in respect of silica sand and limestone with effect from 13 August 2009.

We observed during test check of the records in three offices[64] of the Deputy/ Assistant Director, Geology and Mining, between April 2010 and September 2010 that 12,070 MTs of silica sand and 4,265 MTs of limestone were cleared from the leased area by 12 lessees from August 2009 to March 2010. Though a sum of ₹ 12.29 lakh was required to be collected towards royalty at the enhanced rate, only ₹ 4.33 lakh was collected at the pre-revised rate. This resulted in short collection of royalty of ₹ 7.96 lakh.

After we pointed this out between May and October 2010, the Department replied (May 2011) that an amount of ₹ 1.36 lakh has been collected. We are awaiting further report (December 2011).

We reported the matter to the Government in March 2011 and are awaiting their reply (December 2011).

[64] Kancheepuram, Karur and Thiruvallur.

B - Interest Receipts

7.4 Non-raising of demand for interest/penal interest

As per the Government Order 129 Finance (Loans and Advances) Department dated 21 March 2000 all Heads of the Departments are responsible for monitoring the recoveries of the loans and shall furnish periodical reports to the Government. The Heads of the Departments shall also raise demand on the beneficiaries and recover the loan instalments on the due dates.

We observed that during the period from 2005-06 to 2009-10 the Government sanctioned ₹ 1,426.64 crore as interest bearing ways and means advances[65]/loans to various boards, corporations etc. coming under six[66] Departments. However, test check revealed that demand towards interest and penal interest was not raised resulting in non-realisation of interest of ₹ 325.02 crore and penal interest of ₹ 35.00 crore totaling ₹ 360.02 crore as calculated by us and detailed in **Annexure IX**. Some illustrative cases are given in the following paragraphs:

(i) The Government sanctioned loans aggregating ₹ 206.09 crore during the period from August 2005 to June 2009 to 15 co-operative and two public sector sugar mills for meeting their expenses relating to lay off, payment of state administered price, remittance of PF dues, etc. The interest rate ranged between 10 and 14 *per cent*. Neither the principal nor interest had been paid so far by the sugar mills. The interest and penal interest payable amounted to ₹ 88.66 crore. The head of the Department did not raise demand for the payment of interest/penal interest.

The Commissioner of Sugar stated that proposals were sent to the Government in March 2010 to waive the loans or to convert them into Government equity. The Government in November 2011, however, stated that effective steps would be taken to improve the profitability and liquidity position of the mills in the near future so as to repay the Government loans along with interest.

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[65] Ways and means advances are sanctioned for specific purposes to be repaid within the financial year.

[66] Handloom and Textiles, Industries, Information and Technology, Milk Production and Dairy Development, Municipal Administration & Water Supply and Transport.

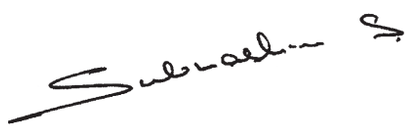
(ii) The Government sanctioned ways and means advances and term loan of ₹ 266.66 crore during February 2007 and March 2010 through six Government orders to M/s. Tamil Nadu Industries Development Corporation (TIDCO) and M/s. Tamil Nadu Industrial Explosives Limited (TEL) for various purposes. M/s. TIDCO paid interest of ₹ 11.34 crore only against interest due of ₹ 43.68 crore. M/s. TEL had not paid the interest so far. The interest due from M/s. TEL as on March 2010 was ₹ 2.28 crore. The overall interest and penal interest outstanding amounted to ₹ 40.15 crore.

7.5 Short adjustment of interest and penal interest

An interest (12 *per cent*) bearing ways and means advance of ₹ 25 crore was sanctioned by the Government vide orders dated 16 December 2005 to M/s. Tamil Nadu Co-operative Milk Producers Federation Limited to compensate the loss suffered by them due to increase in procurement price of milk by rupee one with effect from 1 June 2004. Based on the request of the Federation, the Government converted the above ways and means advance of ₹ 25 crore along with interest of ₹ 4.54 crore and penal interest of ₹ 0.66 crore as share capital through necessary book adjustments vide orders dated 10 September 2007.

We noticed during check of interest calculation statement furnished by the Commissioner of Milk Production and Dairy Development, that interest and penal interest was calculated upto 30 June 2007 instead of upto the date of conversion of the ways and means advance as share capital (10 September 2007). This resulted in short adjustment of interest and penal interest amounting to ₹ 99.91 lakh.

We reported the matter to the Government (May 2011) and are awaiting their reply (December 2011).



Chennai
Dated:

(SUBHASHINI SRINIVASAN)
Principal Accountant General
(Commercial and Receipt Audit)
Tamil Nadu

Countersigned



New Delhi
Dated

(VINOD RAI)
Comptroller and Auditor General of India

ANNEXURES

ANNEXURE I
(Refer to Paragraph 1.4 of Chapter I)

Sl. No.	Name of the Department	Nature of receipts	Auditable units	Units planned	Units audited
1.	Commercial Taxes and Registration	Sales tax	392	217	225
		Stamp duty and registration fees	568	210	199
2	Revenue	Land revenue	206	103	88
		Urban land tax	52	15	7
3	Home (Transport)	Taxes on vehicles	61	30	30
4	Home (Prohibition and Excise)	State excise	60	30	16
5	Industries	Mines and minerals	28	15	15
6	Energy	Electricity duty	23	10	11
Total			**1,390**	**630**	**591**

Annexure II
(Refer to Paragraph 2.17.1)

(₹ in lakh)

Sl. No	Assessment Circle	Name of the assessee	Commo-dity	Assess-ment Year(s)	Turnover escaped assessment (including excise duty)	Rate of tax	Tax leviable	Penalty	Nature of suppression
1	T.Nagar (South)	Pothys Clothing Company	Ready-made Garments	2001-02 & 2002-03	899.96	4	36.00	54.00	Clandestine removal of goods by issuing two sets of invoices
2	Brough Road, Erode	P & C Con-structions (P) Limited,	RCC Pipes	2001-02	241.67	8	19.33	29.00	Clandestine removal of goods by fabrication of statutory records
3	Avaram-palayam, Coimbatore	Raja Steels (P) Ltd	MS Ingots, rods, etc.,	2000-01 to 2003-04	178.59	4	7.14	6.86	Clandestine removal of goods without payment of duty
4	Sankari	Shri Vinayaga Alloys (P) Ltd	MS Ingots, rods etc.,	2006-07	98.01	4	3.92	3.92	
5	Tiruppur (Rural)	Vijaya-lakshmi Spinning Mills	Cotton yarn	2002-03 & 2003-04	138.41	4	3.92	1.96	
6	Sankari	Shri Vig-neshwara Steels (P) Ltd	MS Ingots, rods etc.,	2006-07	92.93	4	3.72	1.86	
7	Erode (Rural)	Agni Steel (P) Limited	MS Ingots, Rods etc.,	2006-07	348.48	4	13.94	6.97	
8	Sriperum-budur	Tricolour Garments Company	Ready-made garments	2002-03	39.88	4	1.60	2.39	
9	Adyar-II	Springfeel Polyure-thane Foams Limited	Poly-urethane Foams	1998-99 to 2000-01	279.84	16	44.77	44.77	Under-valuation of goods by grade substitution
10	Kilpauk	Thyssen-krupp JBM (P) Limited	Auto-mobile parts	1999-00 & 2000-01	79.09	12	9.49	9.49	Non-inclusion of amortisation cost in the value
11	Woraiyur, Trichy	Trichy Steel Rolling Mills	MS Ingots, Rods etc.,	2002-03	240.93	4	9.64	4.82	Clandestine removal of goods without payment of duty
12	Dindigul (Rural)	Goodwill Textiles	Cone Yarn	1999-00 to 2001-02	222.00	2	4.44	0	Misclassifi-cation of goods
				Total	**2,859.79**		**157.91**	**166.04**	

Annexure III
(Refer to Paragraph 3.5.9)

(₹ in lakh)

Sl. No.	Name of the lessee/taluk/	Period of lease/ extent in Sq.ft.	Amount due upto 2004-05	Amount due from 2005-06 to 2009-10
Non-renewal of lease				
1	**The District Club/ Salem**	**22.08.89 to 21.08.99/ 37,995**	**71.95**	**251.38**
Lease expired on 21.08.99. Renewal proposal was sent to CLA on 30.11.03 proposing a lease rent of ₹ 11.96 lakh for the period from 1999 to 2002 and at ₹ 12.33 lakh for the period from 2002 to 2005 and the same was pending. However, the original lease amount of ₹ 15,000 per annum was being collected. The CLA replied (December 2011) that the proposal fixing the lease rent has been forwarded to Government and the particulars called for by the Government was awaited from the concerned District Collector. However, the reply was silent about renewal of lease.				
2	**Thiru Arooran Sugars Ltd./ Vridhachalam**	**01.07.04 to 30.06.07/ 3,77,460**	**0**	**4.01**
Lease was granted vide DRO orders issued in October 2005 fixing a lease rent of ₹ 1.35 lakh per annum. Lease expired on 30.06.07. Renewal proposal was sent by DRO, Cuddalore to CLA on 20.06.08 proposing a lease rent of ₹ 1.79 lakh per annum for the period from July 2007 to June 2010 and orders awaited. The CLA replied (December 2011) that additional particulars called for with regard to renewal of lease from 2007 onwards was awaited from the Collector, Cuddalore.				
3	**Thiru Arooran Sugars Ltd./ Vridhachalam**	**19.05.05 to 18.05.08/ 1,35,692**	**0**	**1.78**
Lease expired on 18.05.08. Renewal/Revision proposal sent to DRO/DC in November 2009 and yet to be approved. Lease amount upto 18.05.08 was only collected.				
4	**Karur Vysya Bank Officers Association / Karur**	**09.07.96 to 08.07.99/ 1,80,940**	**1.19**	**14.92**
Lease expired on 08.07.99. Renewal proposal for the period from 09.07.99 to 08.07.08 was sent to CLA on 18.01.08 and was pending. The CLA replied (December 2011) that additional particulars for renewal of lease from 1999 onwards was awaited from the Collector, Karur.				
5	**Andankoil Pollution Control Ltd./ Karur**	**21.12.95 to 20.12.04/ 28,340**	**0**	**3.56**
Lease expired on 20.12.04. Renewal proposal for the period upto 21.12.10 was sent to CLA on 17.12.07. However revised proposal was called for by CLA in January 2010. The District authorities replied that the revised proposal was under process and would be sent early.				
6	**Officers club/ Karur**	**01.07.72 to 30.06.92/ 26,596**	**11.39**	**12.03**
Lease expired on 30.06.92. Renewal proposal for the period from 01.07.92 to 30.06.10 was sent to CLA on 19.03.08. However revised proposal was called for by CLA in March 2010. The District authorities replied that the revised proposal was under process and would be sent early.				
7	**Arokkiya Madha Hr. Sec. School /Kilvelur**	**14.09.88 to 13.09.06/ 9,692**	**19.97**	**8.95**
Lease expired on 13.09.06. No renewal proposal was sent. However a proposal fixing the lease rent from 1991 to 2006 was sent to CLA in December 2009. Further the Collector forwarded a letter to the Tahsildar in January 2010 fixing the lease rent for the years from 1991 to 2009. However, the proposal was silent about the renewal. An amount of ₹ 81,631 was collected.				
8	**Ladies Recreation Club/ Thoothukudi**	**22.12.66 to 21.12.96/ 23,108**	**16.43**	**54.20**
The lease expired on 21.12.96. The renewal proposal for a further period of 10 years from 22.12.96 to 21.12.2006 was sent to CLA on 16.04.98 and orders awaited. Further as per the DRO's letter dated December 2005 to the Government, the lease rent was proposed at ₹ 10.34 lakh per annum for the period from 2005 to 2007. However, by applying the 12 *per cent* increase as per the GO, the lease rent would be ₹ 11.58 lakh per annum for the period from 2008 to 2010. The CLA replied (December 2011) that additional particulars on the revision of lease proposal called for were awaited from the Collector, Thoothukudi.				

9	**Young Women Christian Association/ Tirunelveli**	**19.02.77 to 18.02.02/ 16,157**	**1.02**	**40.20**
The lease expired on 18.02.2002 and the proposal for renewal was sent by the Collector, Tirunelveli to CLA in July 2007. The Collector tentatively fixed the lease rent of ₹ 4.00 lakh per annum from the year 2002 onwards and has forwarded the same to RDO, Tirunelveli for collection. The CLA replied (December 2011) that additional particulars on the revision of lease proposal from 2002 onwards was awaited from the Collector, Tiunelveli.				
10	**Sathyanarayana/ Mambalam-Guindy**	**01.07.71 upto 30.6.1991 by various orders 485**	**4.28**	**5.64**
Lease expired on 30.06.1991. Though proposal for extending the lease from 1.7.91 to 30.6.96 was not available in the file, proposal for renewal for the period from 7/04 to 6/07 was sent in 9/2004. The lessee had paid lease rent and municipal taxes at old rates.				
11	**Indian Oil Corporation/ Alandur**	**10.12.84 to 09.12.96/ 32,844**	**184.39**	**879.21**
The lease expired on 09.12.96 and the proposal for extention of lease for another period of 12 years from 10.12.96 to 09.12.2008 was sent to the District Revenue Officer in February 2006. However, the lessee was allowed to pay ₹ 1.66 lakh per annum for 12 years from 1996 to 2008. The DRO in August 2008 had directed the RDO to forward proposals for renewal/revision of lease rent				
12	**Tamil Nadu Civil Supplies Corporation Ltd. /Trichy**	**06.02.91 to 05.02.06/ 24,416**	**13.76**	**21.93**
Lease expired on 05.02.06. No proposal for renewal was sent. However lease rent of ₹ 7,638 per annum, as fixed initially, was collected for the period from 1991 to 2001. The Tahsildar in December 2007 sent a proposal to the District Collector for revision of lease rent for the period from 1993 to 2001.				
13	**Meenakshi Service Station (IOC Dealer) / Trichy**	**16,792**	**0**	**73.00**
Enter upon permission was granted in 1963 and lease was not finalised even after 47 years. Amount of ₹ 1,000 per year being paid towards lease rent from the year 1967.				
14	**Sriram Educational Trust / Tiruvallur**	**1998-2007/ 5,38,460**	**0**	**483.61**
Lease expired on 30.06.2007. The initial lease rent fixed was ₹ 16.04 lakh per annum. The proposal fixing the lease rent based on 12 *per cent* increase every year was forwarded by the Tahsildar, Tiruvallur to RDO, Tiruvallur in September 2010. The Sub-Collector in October 2011 fixed the lease rent at ₹ 7.35 crore for the period from 1998 to 2010 and forwarded the same to the Collector. Against this the lessee had paid a sum of ₹ 2.51 crore. However no proposal for renewal of lease from 2007 was sent.				
15	**P.M. Omalass Hr.Sec. School/ Thoothukudi**	**19.06.78 to 18.06.08/ 30,780**	**22.92**	**28.66**
The lease expired on 18.06.08 and no renewal proposal was made. However, the proposal for revision was sent to CLA/Govt. on 10.12.05 proposing a lease rent of ₹ 5.73 lakh per annum for the period from 2002 to 2004. No orders fixing the lease rent was received from the CLA. The existing lease rent of ₹ 113 for each year is being collected.				
16	**R.C Primary School/ Thoothukudi**	**01.07.86 to 30.06.96/ 19,058**	**13.07**	**16.33**
The lease rent was fixed at ₹ 100 per annum. The lease expired on 30.06.96. The renewal proposal for the period from 1996 to 2002 received from Tahsildar (LR). However the proposal was sent back on 05.01.11 for want of rectification of some defects in the proposal.				
17	**Mohamed Sathak Dastagir Matriculation HSS (Residential) / Ramanathapuram**	**2.2.2000 to 01.02.09/ 2,39,800**	**0**	**6.93**
The lessee had paid a sum of ₹ 7.73 lakh towards lease rent for the period from 2000 to 2009. No renewal proposal was sent for the period beyond 2009.				

18	**Sri N. Palanisamy/ Avinashi**	**01.05.99 to 30.04.02/ 3,490**	**3.03**	**8.24**
Aggrieved by the amount of lease rent fixed by the DRO, Coimbatore, the lessee preferred appeal. Finally Hon'ble Madras High Court ordered for quick action. The Tahsildar in his letter dated August 2008 addressed to the Collector had stated that the lessee had been requested to apply for renewal of lease. The lessee did not present the application for renewal of lease resulting in non realisation of lease rent. The Collector in letter dated November 2011 had directed the Tahsildar to inspect the land and to furnish a report thereon.				
19	**Raju/ Mylapore-Triplicane**	**26.05.64 to 30.06.89/ 870**	**11.66**	**7.33**
Lease expired on 30.06.1989. The Tahsildar in his letter (April 2010) had stated that renewal proposal from July 1989 to June 2006 were forwarded to the Collector vide his letter October 1984. He has also forwarded the proposal upto the year 2010. However no orders were issued so far. The lessee continued to enjoy the land without renewal of lease and the Department did not revise the lease rent also. The lessee had paid ₹ 59,928 for the period from July 1989 to 30 June 2010. The Collector in September 2011 had directed the Tahsildar to verify the rate available in the Registration Department and to forward a proposal fixing the lease rent.				
20	**Women's Indian Association / Mylapore-Triplicane**	**17.09.76 to 16.09.81/ 16,621**	**57.35**	**57.44**
Lease expired on 16.09.1981. The lease was further extended in 1997. The lease rent was fixed between ₹ 1,000 to ₹ 5,000 during the years from 1976 to 1993. For the period from 1993 to 1998, the lease rent was fixed at 25 *per cent* of seven *per cent* of the market value. It was further stipulated that the lease rent would be revised once in every three years. The lease was not extended further, though the lessee continued to enjoy the land without renewal of lease and the Department did not revise the lease rent also. The lessee had paid ₹ 3.02 lakh between 1981 and 2010.				
21	**Smt Chandra Dhandayu-thapani/ Mylapore-Triplicane**	**05.03.82 to 04.03.02/ 3,600**	**70.80**	**39.72**
The lease expired on 04.03.2002. Further, the lease rent was calculated at seven *per cent* instead of 14 *per cent* on the market value of the property which was not in order, as the usage of the land was commercial in nature. On a request from the lessee that as the land was used for arts and cultural purposes, the lease rent be fixed at ₹ 500 per annum, the Government vide letter dated March 2004 had directed the CLA to get the land inspected to verify the nature of the utilisation of the land. There was protacted correspondence within the Department viz., Collector, Tahsildar, etc. during the period between 2004 and 2011. However, the lease rent is yet to be finalised.				
22	**Pethachi/ Mylapore-Triplicane**	**01.07.86 to 30.06.91/ 1,398**	**0**	**28.23**
Proposal for renewal for a further period from 1 July 1991 to 30 June 2007 was submitted by Tahsildar in November 2004. The lessee did not agree to pay the lease rent, but requested for lease rent at nominal rate. The Tahsildar informed the Collector of Chennai in his proceedings dated April 2010 for resumption of land for non payment of lease rent at the prevailing market value of the land. However, the Collector of Chennai in his letter dated September 2011 has directed the Tahsildar to send the lease renewal proposal.				
	Total	**17,64,594**	**503.21**	**2,047.30**

Annexure IIIA
(Refer to Paragraph 3.5.9)

(₹ in lakh)

Sl. No.	Name of the lessee/taluk	Period of lease/ extent in Sq.ft.	Amount due upto 2004-05	Amount due from 2005-06 to 2009-10
Non-renewal of lease				
1	**Officers Recreation Club / Cuddalore**	**07.10.90 to 31.03.04/ 53,401**	**26.60**	**35.34**
Lease expired on 31.03.04. No renewal proposal was sent so far. Exemption from payment of lease amount was requested by the lessee and the same was not accepted by the Department in November 2008.				
2	**AAM School/ Mambalam-Guindy**	**01.07.78 to 30.06.88/ 689**	**8.09**	**2.94**
The lease was not renewed after its expiry. The Government issued orders in July 2004 rejecting the proposal of nominal lease rent and directed the Department to take action to resume the land and treat the period until resumption as lease. It also ordered for collection of lease rent at seven *per cent* and for revision every three years. The Tahsildar computed the lease amount and forwarded the demand to the lessee in October 2004. The lessee replied in December 2006 that it was in service of poor children and could not pay such a huge amount. Further in November 2006 the lessee was asked to surrender the land. The CLA in April/November 2011 called for the compliance report for resumption of the land from the DRO. However the lessee continued to enjoy the property without payment of lease rent and the land is yet to be resumed.				
3	**M/s. Frontier Indico Tea Factory/ Panthalur**	**1981 to 1991/ 2,97,515**	**11.04**	**9.80**
The lease was not renewed from 1991. The Factory has requested for alienation of the land. However the request was rejected by the Government in November 2005 and stated that the lease could be renewed for a further period of 15 years from 1991. The CLA directed the DRO to verify the financial condition of the lessee and to furnish a report thereon. However, the Special Officer in January 2008 submitted detailed report and recommended for alienation of the land by collecting the value as on 30.6.2006. However, the land was not alienated so far and lease rent for the period after 1991 was also not collected.				
	Total	**3,51,605**	**45.73**	**48.08**

Annexure IIIB
(Refer to Paragraph 3.5.9)

(₹ in lakh)

Sl. No.	Name of the lessee/taluk	Period of lease/ extent in Sq.ft.	Amount due upto 2004-05	Amount due from 2005-06 to 2009-10
Non-revision of lease rent				
1	**Plant Quarantine & Fumigation Station/ Alandur**	**12.05.89 to 11.05.2019/ 62,220**	**778.50**	**1,123.86**
Revision of lease rent has not been done so far. The CLA between August 2009 and October 2010 has sought for a report. However the same is yet to be furnished.				
2	**PPN Power Generating Company Ltd./ Tharangambadi**	**20.04.98 to 19.04.28/ 13,93,456**	**0**	**92.81**
The lease rent was due for revision from 20.04.01 to 20.04.10. The proposal for revision was sent to CLA in November 2003. On these proposals, clarifications were called for by the CLA in February 2005 and the DRO clarified in June 2009. The CLA called for revision of lease rent upto April 2010 in 2009. The proposal for revision of lease rent for the period from 2004 to 2010 was sent by Tahsildar in Novmeber 2009. The same is yet to be finalised.				
3	**Mrs. Rukmaniammal/ Trichy**	**09.03.94 to 08.03.14/ 1,744**	**10.30**	**14.03**
Revision not finalised from 2003 onwards. Demand for ₹ 5.89 lakh for the period from 1997 to 2002 was made in September 2004 against which the lessee paid ₹ 74,207.				
4	**Indian Oil Corporation (M/s Mahalakshmi Traders)/ Mettur**	**17.09.99 to 16.09.11/ 11,260**	**0**	**33.10**
The proposal for revision of lease rent fixing it at ₹ 33.10 lakh for the period from 17.9.08 to 16.9.11 was sent by Sub-Collector to the Collector on 18.8.2009. The lease rent is yet to be revised.				
5	**U.E. Development India Private Ltd./ Maduranthakam**	**04.03.03 to 03.03.12/ 7,89,382**	**0**	**81.87**
The lessee had not paid the lease rent for the period from 04.03.2006 to 03.03.2010. Further the Department had not yet raised demand for the period. In the proposal (June 2008) sent by the Tahsildar, Maduranthakam the lease rent for one year was fixed at ₹ 17.74 lakh. However the Collector fixed the lease rent at ₹ 19.87 lakh per annum and forwarded the same to RDO for fresh proposal (December 2009/October 2011).				
6	**Bharat Sanchar Nigam Ltd./Karur**	**28.09.92 to 27.09.22/ 6,805**	**7.31**	**15.41**
Revision proposal for every 3 years were not finalised and lease amount not collected.				
7	**Department of Light House & Light ships /Nagapattinam**	**01.07.89 to 30.06.19/ 40,845**	**27.00**	**82.57**
Lease rent was not revised from 01.07.92. The lessee had paid a sum of ₹ 1.46 lakh towards lease rent for the period from 1989 to 2009. Proposal for revision of lease rent was sent to CLA on 02.09.04 and the same was returned by the CLA calling for information regarding sales statistics, etc to DRO in September 2005. On a scrutiny of the files, it was seen that the lessee has sought for transfer of land in their name on 'Permanent Basis' at the cost of ₹ one as it is acting as a aid for the mariners and fishermen. However, neither the lease rent was fixed nor the lessee's request been complied with.				
8	**Dr. Venkatrajulu/ Mayiladuthurai**	**29.04.94 to 28.04.14/ 1,479**	**5.90**	**7.86**
The lease rent was not revised from 01.07.96. The Tahsildar sent revised proposal for the period from July 1996 to June 2011 fixing the lease rent for every three years to RDO in March 2010.				

9	**M/s. Indian Oil Corporation Dealer M/s. Mahalakshmi & CO. / Tiruppur**	**1999 to 2010/ 7,265**	**101.22**	**106.51**
The Government issued orders in October 2008 to collect the lease rent at 14 per cent and fixed the value of the land. On a direction from the Government/CLA, the RDO, Tiruppur submitted his report to the DRO. However no order has been passed till date eventhough the Government have issued order in this regard. Further the lessee was allowed to pay a sum of ₹ 8,873 per month for the period from April 1996 to December 2010.				
10	**Union Club/ Madurai (South)**	**30.06.80/ 27,468**	**128.36**	**22.52**
The lessee surrendered the land on 08.09.06. It paid a sum of ₹ 9.00 lakh between 2001 and 2005. For the demand of ₹ 61.31 lakh for the period from 1980 to 1996, the lessee went on appeal and the Hon'ble High Court, Chennai on 17.8.2007 directed the Department to consider to reduce the dues. Based on the orders, the lease rent was fixed without additional surcharge.				
11	**St. Peter's Higher Sec. School/ Thanjavur**	**15.11.1935 - 14.11.2034/ 2,45,468**	**102.29**	**293.19**
The lessee was paying ₹ 33 per year from 1937 to 2000. The revision proposal for the period from 1.1.2001 to 31.12.2003 fixing the lease rent at ₹ 5.10 lakh per annum was sent to RDO in November 2005. No proposal was sent for the period from 2004 onwards. The lease rent has not been revised so far.				
	Total	**25,87,392**	**1,160.88**	**1,873.73**

Annexure IV
(Refer to Paragraph 3.5.10)

(₹ in lakh)

Sl. No.	Name of the institution/ Taluk Extent (in acres) / Date of enter upon permission	Land cost as per the alienation order	Remarks
Alienation finalised			
1	Periyar University/ Omalur 93.60/ 06.04.99	**104.68**	The possession of land was given on 17.09.97 and the Government issued orders for alienation on 06.04.99. The proposal fixing the land cost was forwarded by the District Collector, Salem to CLA in July 2006. However, amount towards land cost has not been collected so far
2	Tamil Nadu Tourism Development Corporation/ Chengleput 16.86/ 06.06.84	**2,107.50**	The Government while accepting the alienation in 2008 directed the Corporation to apply to the District Collector for the same and fixed the land cost as per the revised guideline rate with effect from 1.8.2007. Land cost has not been collected so far.
3	SIPCOT/ Perundurai 4.99/ 29.10.01	**9.69**	The land was alienated on 23.08.04 based on the Government order dated 29.10.01. In the order it was stated that the land value was to be collected at double the market value prevailing on the date of alienation. However, only the actual market value was collected. After we pointed this out, the Tahsildar stated (February 2011), that Government would be addressed for necessary orders. The reply was not correct since in the GO itself it was stated that land value was to be collected at double the market value.
4	Tamil Nadu Housing Board/ Poonamallee/ 126.00/ 02.03.88	**101.00**	The land was originally alienated vide GO 2084/Revenue dated 3.11.1988 and demand (as on 2006) for ₹ 1.01 crore after deducting ₹ 25.00 lakh paid during 1991 was issued. Proposal for fixing the land cost was forwarded to DRO on 08.01.07.
5	Corporation of Tirunelveli/ Palayamkottai/ 4.37/ 27.06.00	**146.83**	The land was handed over as early as in 1999 and the Government ordered for transfer of the land on 27.06.2000. However land cost has not been collected so far.
6	Tamil Nadu Tourism Development Corporation/ Palayamkottai/ 0.83/ 17.03.92	**9.16**	The Government ordered for transfer of the land in 1992. The RDO in his proposal dated June 2000 fixed the land cost at ₹ 31.99 lakh and forwarded the same to the Collector. The Collector in August 2010 recommended to the CLA that the cost of the land be fixed at ₹ 9.16 lakh prevailing in 1992. However, no land cost was collected so far.
7	Tamil Nadu Housing Board, Trichy/ Tiruverumbur/ 569.11 & 0.86/ 10.06.81	**868.26**	The land was handed over to the Board and the land was developed as house plots. The Government vide order issued in March 2010 fixed the cost of the land which was prevailing at the time of allotment. The same has not been collected so far.

8	Erode Marketing Committee/ Perundurai/ 0.50/ 14.06.04	**6.59**	Enter upon permission was granted on 14.06.04 and alienation order was issued on 02.05.06. Demand notice was issued. However, no amount was collected so far. The RDO in April 2010 directed the Committee to pay the land cost of ₹ 7.38 lakh after including the notional increase portion.
9	Tamil Nadu State Transport Corporation/ Mettur/ 4.00/ 17.09.01	**29.95**	As per the Government order dated 17.9.2001, orders were issued for transfer of the land. In the order it was also stated to collect three times the value of the land at the time of transfer of the land. The Tahsildar in his proposal dated October 2010 to the District Collector refixed the land cost at ₹ 29.95 lakh. Land cost was not finalised so far.
10	Tamil Nadu Housing Board/ Alandur/ 0.06/ 21.01.98	**20.31**	The Government issued orders alienating the land on 21.1.1998. In the order it was stated that the land cost should be collected according to the rate prevailing at the time of order. The District Collector forwarded proposal fixing cost of the land at ₹ 5.25 lakh to the Government only in July 2007 based on the sale transaction held during the year 1998 and the same was pending.
11	Municipal Council, Udumalpet/ 0.12/ 13.11.97	**128.78**	The Government issued order alienating the land in 13.11.1997. In the order it was stated that the land cost should be collected according to the rate prevailing at the time of order. The proposal fixing the land cost at ₹ 2.05 lakh as prevailing in 1998 was forwarded by the Tahsildar to the District Collector in February 1999 and at ₹ 18.58 lakh as on 2003-04. The District Collector in May 2005 has also sent a letter to the Council for payment of land cost and has further stated that if the same was not accepted, the case will be treated as encroachment and eviction process will be initiated.
	Total Extent – 821.30 acres	**3,532.75**	

Annexure V
(Refer to Paragraph 3.5.11)

(₹ in lakh)

Sl. No.	Name of the institution/ Taluk /Extent (in acres)/ Date of enter upon permission	Land cost as on 30 June 2010	Remarks
Alienation yet to be finalised			
1	District Co-operative Milk Producers Union Ltd., Trichy/ 20.17/ 27.03.91	**8,794.12**	Though the proposal for alienation was sent to CLA on 30.03.97 and periodical reminders sent between November 2004 and December 2010 to CLA, orders not issued so far. However, the institution is enjoying the property by constructing permanent structures without paying the land cost. The Tahsildar, Trichy recommended in July 2004 to fix the land cost of ₹ 35.14 lakh prevailed in 2002 and forwarded the same to RDO.
2	Tamil Nadu State Transport Corporation, Trichy/ Srirangam/ 2.14/ 23.01.09	**419.87**	Though the proposal for alienation was sent to CLA on 29.12.08 by the District Collector recommending a value of ₹ 1.58 crore (as on 2008) and followed it up with periodical reminders to CLA, orders were not issued so far. However the Corporation is enjoying the property without paying the land cost.
3	M/s Ramakrishna Sarada School/ Salem/ 9.88/ 6.7.69	**2,584.61**	Government ordered for transfer of the land on 27.1.91. The Tahsilar forwarded the alienation proposal fixing the land cost at ₹ 21.64 lakh to RDO,Salem on 18.02.2000. The DRO forwarded the alienation proposal to CLA in December 2004 fixing the land cost at ₹ 1.94 crore as arrived at by adding notional increase every year. The RDO also sent reminders in November 2009/December 2010. The same has not been finalised so far.
4	Employees State Insurance/ Salem/ 1.61/ 6.4.85	**57.77**	Government ordered for transfer of the land on 21.1.1984. The possession of land was given on 06.04.85 and building was constructed with five floors for Hospital purpose alongwith staff quarters. The RDO in June 2005 forwarded proposals fixing the land cost at ₹ 32.78 lakh (as on 2005) to DRO. The land cost has not been finalised so far.
5	Tamil Nadu Housing Board, Salem/ 37.43/ 23.9.92	**554.47**	The possession of the land was given based on the Government order dated 30.5.1988 directing that the land be placed at the disposal of the Board. The transferee divided the said land into 1,050 plots and sold to various individuals and realised its cost. Further in March 2005, the DRO sent proposal to CLA fixing the land cost at ₹ 7.76 lakh based on acre rate (agricultural rate) and also arrived at the value of ₹ 88.89 lakh based on square feet rate. Further in 2008, the RDO forwarded a proposal fixing the land cost at ₹ 5.62 crore to District Collector. The District Collector also raised a demand for ₹ 1.07 crore in December 2010. However, ₹ 7.76 lakh towards the land cost has been paid by the transferee.

6	M/s TASMAC Ltd /Pollachi/ 0.90/ 22.12.06	**9.97**	The District Collector in 10/2010 has sent to CLA the alienation proposal fixing the land cost at ₹ 5.23 lakh and building cost at ₹ 4.74 lakh.
7	Tamil Nadu Electricity Board/ Mettupalayam/ 13.54/ 22.12.95	**7.18**	Proposal for reclassification of the land for the purpose of utilisation by the Board has been forwarded between the years 1994 and 2010 from District Collector to CLA. However, till date, the land has not been alienated and land cost fixed..
8	Babin Labour Co-op. Society/ Erode/ 0.42/ 06.03.01	**54.41**	The RDO had sent a proposal in December 2005 to the DRO fixing the land cost at ₹ 30.61 lakh. The proposal for alienation was sent to CLA on 07.02.06 and 13.03.06 and orders awaited.
9	Tamil Nadu State Transport Corporation/ Sathya-mangalam/ 1.48/ 01.10.86	**9.68**	The land has been utilised for running a hotel. While the corporation paid ₹ 4.24 lakh for the cost of the building which was in existence at the time of taking over the land, the cost of the land has not been fixed so far. Proposal fixing the land cost at ₹ 9.68 lakh has been sent by the RDO to the District Collector in April 2010 and by the RDO to DRO in May 2010. The same has not been finalised so far.
10	Tamil Nadu Housing Board/ Ambattur/ 135.92/ 03.11.88	**5,649.11**	The cost of the land at the time of enter upon permission was ₹ 5.93 crore. Proposal for fixing the land cost at ₹ 56.49 crore was forwarded to DRO on 18.04.08.
11	Small Industries Development Corporation/ Ambattur/ 33.77/ 19.07.01	**93.68**	Proposal fixing the land cost at ₹ 93.68 lakh was forwarded by the Tahsildar to DRO in November 2010. The same has not been finalised so far.
12	M/s MTC/ Poonamallee/ 5.68/ 05.11.82	**489.99**	Though enter upon permission was granted in November 1982 and the land value was proposed at ₹ 24.56 lakh as early as in April 1992, the land cost was not finalised so far.
13	Tamil Nadu Slum Clearance Board/ Thanjavur/ 3.17/ 02.03.94	**114.70**	The Department replied that the Tamil Nadu Slum Clearance Board has requested to transfer the land free of cost and the order of the Government is awaited.
14	Tamil Nadu State Transport Corporation/ Udumalpet/ 30.00/ 04.08.83	**150.00**	The permission was granted by the Government to the Transport Corporation Ltd. to enter upon the land in the year 1983 and possession was taken over. The Additional Collector in his proceedings dated 9.5.94 issued orders that the land was to be alienated on collection of land cost of ₹ 1.36 lakh. However, neither the cost of the land was fixed nor alienation orders passed so far. Proposal fixing the land cost at ₹ 13.63 lakh was sent by Tahsildar to the Collector in 2007.

15	Tamil Nadu Water Supply and Drainage Board/ Udumalpet/ 2.75/ 15.09.83	**13.75**	The possession of the land was handed over on 19.09.1983. The District Collector forwarded a proposal fixing the land cost at ₹ 1.40 lakh (as per value of 2002) to the CLA in March 2003. The CLA returned the proposal in May 2003 for want of certain information. The information sought for by the CLA was forwarded by the DRO in March 2006. However, the alienation proposal was not finalised so far.
16	World Bank/ Mambalam-Guindy/ 3.55/ 26.02.04	**1,143.26**	Though the grantee agreed to purchase the said land as per the terms and conditions agreed by both the Government and the grantee, the Government has not alienated the land and collected the land cost. This has resulted in non realisation of land cost till date.
17	Tamil Nadu Housing Board/ Madurai (North)/ 173.31/ 06.09.82	**23,932.89**	The land was handed over to the board between the years 1980 and 1990. The Government vide order issued in March 2010 fixed the cost of the land which was prevailing at the time of allotment in respect of lands given to TNHB. The alienation/fixing of land cost has not been done so far.
	Total Extent -475.72 acres	**44,079.46**	

Annexure VI
(Refer to Paragraph 3.5.12.1)

(₹ in crore)

Sl. No.	Name of the encroacher	Name of the taluk	Extent in acres	Period of encroach-ment	Land cost as on 30 June 2010
1.	Apollo Hospitals	Egmore-Nungambakkam	0.04	> 6 years	0.25
2.	Sunnath Jammadh Committee	Gobichettipalayam	0.47	23 years	0.02
3.	Thirumalaisamy	Perundurai	0.25	15 years	0.12
4.	Naganaicker	Sathyamangalam	0.16	15 years	0.16
5.	Madras Motor Sports Trust	Kanchipuram	10.39	> 8 years	0.73
6.	Jem Stone Beach Resort Ltd.,	Chengalpet	3.68	> 5 years	5.62
7.	India Cadle Co.,	Tambaram	2.72	> 5 years	2.98
8.	Avudaiammal	Kanyakumari	3.25	20 years	0.05
9.	Ganesan	Nagercoil	16.77	> 20 years	0.50
10.	Jesudass	Thovalai	4.50	> 10 years	0.13
11.	Thangaraj	Thovalai	1.00	20 years	0.03
12.	Jesudass	Thovalai	0.75	20 years	0.02
13.	Manikandan	Thovalai	2.37	20 years	0.09
14.	Duraisamy	Thovalai	0.68	20 years	0.03
15.	Rajalingam	Thovalai	0.79	20 years	0.03
16.	Naiynarnadar	Thovalai	0.64	20 years	0.02
17.	Tamil Nadu Energy Development Agency	Thovalai	16.75	23 years	0.32
18.	Catholic Church	Madurai (N)	1.12	15 years	2.93
19.	Nadar Uraveen Murai	Madurai (N)	0.28	15 years	0.08
20.	R. Pandi	Madurai (N)	2.73	15 years	0.77
21.	Fenner Southern Products (P) Ltd.,	Madurai (S)	4.20	> 15 years	0.42
22.	Mettur Thermal Power Project	Mettur	207.49	> 20 years	4.15
23.	Madras Refineries Ltd (Now CPCL)	Nagapattinam	26.42	20 Years	0.12
24.	Seshayee Boards Mills Ltd.	Tiruchengode	3.34	> 5 years	5.86
25.	Indo Swiss Resorts	Coonoor	0.22	> 5 years	0.02
26.	Thattapalam Estate	Kotagiri	3.22	> 5 years	0.08
27.	Craigmore Estate	Coonoor	1.09	> 5 years	0.02
28.	Billimalai Estate	Coonoor	0.82	> 5 years	0.02
29.	Ramamurthi & others	Pattukottai	0.68	> 20 years	0.70
30.	V. Ramalingam	Pattukottai	0.70	> 20 years	0.11
31.	M/s Bojaroja Textile Mills	Theni	0.84	20 years	0.27
32.	Madras Tea Estate	Uthamapalayam	6,389.42	> 30 years	143.76
33.	Thoothukudi Naidu Mahajana Sangam, Thoothukudi	Thoothukudi	0.48	> 5 years	1.15

34.	Sri Govindasamy	Palladam	0.44	20 years	0.03
35.	K.M. Rasiappan	Palladam	0.69	20 years	0.07
36.	Gugai Namasivayar Mutt	Tiruvannamalai	1.10	30 Years	4.33
37.	Shanmuga Factory	Tiruvannamalai	0.30	> 5 years	1.24
38.	Rajkumar	Tiruvannamalai	0.95	> 5 years	0.97
39.	Mara Tannery, Ranipet	Ranipet	0.79	17 years	0.35
Total			**6,712.53**		**178.65**

Annexure VII
(Refer to Paragraph 3.5.12.2)

(₹ in crore)

Sl. No	Name of the encroacher	Name of taluk	Extent in acres	Period	Land cost as on 30 June 2010
1	Swami Vivekananda Kendra Library	Kanya-kumari	13.75	> 5 years	0.11
2	Vidhyamandir School	Madurai (N)	0.75	15 years	1.10
3	Director, Fethal Farm	Madurai (N)	0.50	15 years	0.15
4.	Principal, T.N.Theological College	Madurai (N)	0.88	15 years	0.26
5.	President, Palayampath Nadar Uraveenmurai	Madurai (S)	0.30	> 15 years	0.85
6.	Vellachamy Nadar College	Madurai (S)	1.50	10 years	0.49
7.	Jeyaraj Nadar Hr.Sec.School	Madurai (S)	5.31	10 years	1.74
8.	K. K. Muniraj	Tiruchen-gode	2.32	19 years	1.11
9.	KSR Educational Trust	Tiruchen-gode	4.36	7 years	0.03
10.	Vinayaga Mission (Thirumuruga Kirupananda Variyar Thavathiru Sundara Swamigal Medical Educational and Charitable Trust)	Salem	26.01	13 years	4.37
11.	Rajakambalathar	Theni	0.49	20 years	0.12
12.	Roman Catholic Church	Palladam	1.00	> 5 years	0.10
13.	Prathyusha Engineering College	Tiruvallur	1.73	8 years	0.17
14.	Danish Mission High School	Tiruvanna-malai	0.54	> 10 years	0.09
15.	Krishthuvin Priyar	Tiruvanna-malai	0.40	> 5 years	0.24
16.	St. Mary's Convent Vellore	Vellore	0.17	8 years	0.31
Total			**60.01**		**11.24**

Annexure VIII
(Refer to Paragraph 3.5.12.3)

(₹ in crore)

Sl. No.	Name of the District	Name of the Taluks	No. of Cases	Extent	Value of the land as on 30 June 2010
1	Coimbatore	Coimbatore (North), Coimbatore (South), Pollachi, Sulur	7,370	1,306.83	356.58
2	Erode	Erode, Gopi, Perundurai, Sathiyamangalam	29	95.65	5.15
3	Kanchi-puram	Kanchipuram, Chengalpet, , Sriperumbudur, Tambaram	2,422	190.35	103.37
4	Karur	Karur, Aravakurichi, Kulithalai	815	624.76	17.19
5	Naga-pattinam	Nagapattinam	63	6.57	0.07
6	Namakkal	Namakkal, Rasipuram, Tiruchengode	2,847	844.95	8.57
7	Nilgiris	Uthagamandalam, Kothagiri, Coonoor	224	101.94	4.27
8	Ramanatha-puram	Ramanathapuram	363	143.82	0.58
9	Salem	Salem, Mettur, Omalur, Sankagiri	879	143.14	16.55
10	Thanjavur	Thanjavur, Pattukottai	139	43.6	13.10
11	Theni	Theni	9	0.90	0.04
12	Thoothu-kudi	Thoothukudi, Kovilpatti, Tiruchendur	462	96.11	1.38
13	Tirunelveli	Tirunelveli, Ambasamudiram	12	14.62	3.47
14	Tiruppur	Tirupur, Palladam, Kangeyam	46	52.57	31.30
15	Tiruvallur	Tiruvallur, Poonamallee	638	387.08	13.43
16	Tiruvanna-malai	Tiruvannamalai, Cheyyar, Thandrampet	427	1,154.07	5.37
17	Trichy	Trichy, Tiruverumbur, Manapparai	2,119	907.93	281.60
18	Vellore	Vellore, Katpadi, Walajah	505	950.17	39.73
Total			**19,369**	**7,065.06**	**901.76**

6	Handloom & Textiles	Advance of ₹ 14.39 crore was granted for the years 2005-06 and 2008-09 to be repaid in the same year with rate of interest at 10 *per cent* for 2005-06 and 12 *per cent* for 2008-09.	5.24 1.32 6.56
The advance was granted to Co-operative Spinning Mills to settle dues to cotton traders and to meet the expenditure consequent on the wage revision. However, the principal was not paid with interest so far.			
7	Milk Production and Dairy Develop-ment	A sum of ₹ 18.75 crore was sanctioned as medium term loan in 2007-08 through three Government Orders.	1.17 0.00 1.17
The loan was sanctioned to M/s. Tamil Nadu Co-operative Milk Producers Federation Limited as medium term loan to compensate the loss incurred due to enhancement of procurement price of milk with a moratorium period of two years. The loan amount along with interest has not been repaid so far. The Department replied that waiver proposal was already submitted to Government.			
8	Information and Technology	A sum of ₹ 29.35 crore was sanctioned in June 2008 as ways and means advance with rate of interest of 12 *per cent*[67]	1.40 0.00 **1.40**
Loan was sanctioned to Arasu Cable T.V. Corporation Limited. Out of ₹ 29.35 crore, a sum of ₹ 23.00 crore was treated as equity share capital of the undertaking and balance amount was treated as interest bearing loan (10.5 *per cent*) with repayment period of ten years in Government order[68] issued in November 2008. The interest chargeable on ₹ 29.35 crore from the date of disbursement to the date of conversion into share capital was not demanded and collected.			
	Total	**Interest** **Penal Interest**	**325.02** **35.00** **360.02**

[67] G.O.Ms.No.13, Information Technology Dept. dt.23.06.08

[68] G.O.Ms.No.23,Information Technology Dept. dt.18.11.08

Annexure IX
(Refer to Paragraph 7.4)

(₹ in crore)

Sl. No.	Name of the Depart-ment	Details of loans/advances sanctioned	Interest and penal interest due (as on 31 March 2010)
1	Transport	A sum of ₹ 585.24 crore was sanctioned between March 2006 and February 2010 by the Government as short term loan to seven State Transport Undertakings (STUs) through 19 Government Orders with rates of interest ranging from 10 *per cent* to 12 *per cent*.	130.43 8.44 138.87
The loan was granted for the purpose of meeting additional expenditure on account of increase in wages, diesel price, to overcome cash loss and for the purchase of new buses. Out of the above loan amount only a sum of ₹ 1.81 crore was paid towards principal and interest by four transport undertakings. The Department replied that due to increase in HSD oil price, implementation of wage revision effected to employees in September 2003 and 2007 and operation of uneconomical services had resulted in losses to STUs. It was also stated that the Government was requested by the STUs to convert the overdue amount into equity share capital (between January 2010 and June 2011).			
2	Industries - Director of Sugar	Loans and advances aggregating ₹ 206.09 crore were sanctioned during the period from August 2005 to June 2009 with interest rate ranging from 10 to 14 *per cent*.	74.87 13.70 88.57
The loans were granted to 15 co-operative and two public sector sugar mills for meeting expenses relating to lay off, payment of state administered price, remittance of PF dues, etc. Neither the principal nor interest had been paid so far by the sugar mills. The Commissioner of Sugar stated that proposals were sent to Government in March 2010 to waive the loans or to convert them into Government equity. The Government stated (November 2011) that effective steps will be taken to improve the profitability and liquidity position of the Mills in near future so as to repay the Government loans alongwith interest.			
3	Industries	The Government sanctioned ways and means advances and term loan of ₹ 266.66 crore during February 2007 and March 2010 through six Government Orders.	34.62 5.53 40.15
The ways and means advance was sanctioned to M/s. Tamil Nadu Industries Development Corporation (TIDCO) and M/s. Tamil Nadu Industrial Explosives (TEL) limited for various purposes. However M/s. TIDCO paid interest of ₹ 11.34 crore only against interest due of ₹ 43.68 crore. M/s. TEL had not paid the interest so far. The interest due from M/s. TEL as on March 2010 was ₹ 2.28 crore.			
4	Municipal Admini-stration and Water Supply	Government through 54 GOs sanctioned ₹ 248.84 crore as loans during the period from April 2005 to March 2010.	61.25 4.18 65.43
The loans were sanctioned to Tamil Nadu Water Supply and Drainage Board(TWAD) to repay the loans with interest already availed by the Board from Financial Institutions like Tamil Nadu Urban Finance and Industrial Development Corporation (TUFIDCO) and LIC, for execution of Water Supply Schemes in Municipalities and Town Panchayats (LIC Loan). It was instructed in the GOs that the Commissioner of Municipal Administration (CMA) should raise necessary demands against the beneficiary local bodies and inform the Managing Directors of TWAD Board and TUFIDCO for necessary action. However, no demand was raised by the CMA and consequently the principal was not repaid with interest by the Municipalities so far.			
5	Municipal Admini-stration and Water Supply	In the year 2006-07, Government of Tamil Nadu converted the balance of ₹ 57.32 crore available with Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) as loan with an interest of eight *per cent* repayable in five years.	16.04 1.83 17.87
The loan was granted for conversion of advance granted for implementation of Works to tackle water scarcity in Chennai. CMWSSB had repaid only a sum of ₹ 5.73 crore towards two quarterly installments of principal and ₹ 2.24 crore towards interest in September 2006. No further payment has been made towards principal and interest so far.			